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COMMONWEALTH OF MASSACHUSETTS

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1990

William F. Weld, *Governor*
Peter Nessen, *Administration and Finance Secretary*
William Kilmartin, *Comptroller*

COMMONWEALTH OF MASSACHUSETTS

Prepared by the Office of the Comptroller

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1990

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COMMONWEALTH OF MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 1990

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COMMONWEALTH OF MASSACHUSETTS

Introductory Section

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THE COMMONWEALTH OF MASSACHUSETTS

Organization Chart

The Legislative Branch

- General Court
  Senate - House

The Executive Branch

- Lieutenant Governor
- Governor
- Executive Council
- Attorney General
- Auditor
- Secretary of State
- Treasurer

The Judicial Branch

- Courts

Secretariats

- Administration and Finance
- Communities and Development
- Consumer Affairs
- Economic Affairs
- Elder Affairs
- State Comptroller
- Environmental Affairs
- Human Services
- Labor
- Public Safety
- Transportation and Construction
- Board of Regents
- Department of Education

COMMONWEALTH OF MASSACHUSETTS

COMMONWEALTH OFFICERS

(AS OF JANUARY 25, 1991)

Constitutional Officers	
William F. Weld	Governor
A. Paul Cellucci	Lieutenant Governor
Michael Joseph Connolly	Secretary of State
L. Scott Harshbarger	Attorney General
Joseph D. Malone	Treasurer and Receiver - General
A. Joseph DeNucci	Auditor
Legislative Officers	
William M. Bulger	President of the Senate
Charles F. Flaherty	Speaker of the House
Judicial Officers	
Paul J. Liacos	Chief Justice, Supreme Judicial Court
Joseph P. Warner	Chief Justice, Appeals Court
Arthur M. Mason	Chief Administrative Justice, Trial Court

The Commonwealth of Massachusetts
Office of the Comptroller
One Ashburton Place
Boston, Massachusetts 02108

WILLIAM KILMARTIN
COMPTROLLER

(617) 727-5000

January 25, 1991

To the Citizens of the Commonwealth of Massachusetts,
Governor William F. Weld and Honorable Members
of the General Court:

In accordance with Section 12 of Chapter 7A of the General Laws, the Office of the Comptroller transmits this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1990 (FY 90).

The report is prepared to conform to generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB), the professional standards of the American Institute of Certified Public Accountants, the recommendations of the Government Finance Officers Association, and the requirements of state finance law.

The Office of the Comptroller is responsible for the fair presentation of the financial statements of the Commonwealth and for the preparation of the CAFR. This report is presented in three sections; introductory, financial, and statistical. The introductory section includes this transmittal letter, the Commonwealth's organizational chart, and a listing of its principal officials. The financial section includes the general purpose financial statements and the combining and individual fund and account group financial statements, schedules and supplementary information, as well as the independent auditors' report on the financial statements, schedules and supplementary information. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis. The CAFR includes all the necessary information for the reader to obtain a comprehensive understanding of the Commonwealth's financial position and the results of its operations for FY 90.

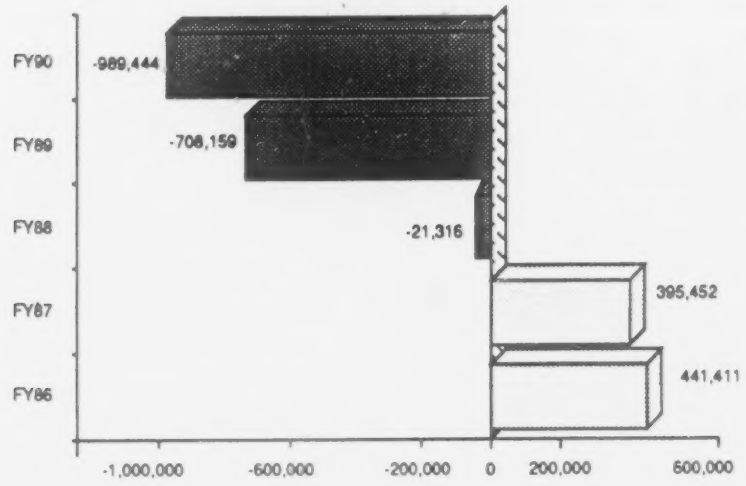
The financial position of the Commonwealth, when measured on both a GAAP and a statutory basis of accounting, is unfavorable. At the beginning of fiscal year 1991 (FY 91) the Legislature enacted tax increases and authorized borrowings of up to $1.421 billion to resolve the FY 90 statutorily-defined deficit in the General and Local Aid Funds and the payment in FY 91 of $126 million in Medicaid expenditures pertaining to prior service periods. Pursuant to this authorization, $1.363 billion has been borrowed. This

borrowing must be repaid within seven years, thus requiring annual budgeting of the necessary debt service. A similar financing strategy, involving tax increases and borrowing, was used to resolve the fiscal year 1989 (FY 89) deficit and to pay certain Medicaid expenditures. Having resolved the deficits from FY 89 and FY 90, it is uncertain if the budget for FY 91 is balanced at the current time; additional deficit borrowing is not yet planned or authorized.

The fund balance in the General Fund, when measured according to GAAP, indicated a deficit balance in FY 88, FY 89, and FY 90.

GENERAL FUND BALANCE

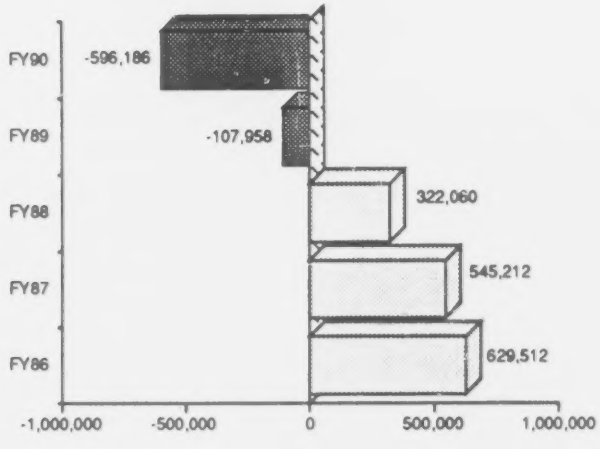
(amounts in thousands)



Under the statutory basis of accounting, which is used to develop the state budget and control daily activities, the General Fund also indicated a deficit balance in a different magnitude.

GENERAL FUND BALANCE - STATUTORY BASIS

(amounts in thousands)



For the past several years, two sets of financial statements, one in conformity with GAAP and the other on the statutory basis, have been presented in a single volume entitled the Comprehensive Annual Financial Report (CAFR). This practice was sometimes confusing to various users of the financial statements. Commencing in FY 90, the two sets of financial statements have been separated. This CAFR presents the audited General Purpose Financial Statements with related footnotes and additional information. The audited financial statements under the statutory basis are now published in a separate volume entitled the Statutory Basis Financial Report.

INDEPENDENT AUDIT

The firm of Deloitte & Touche, together with their subcontractors, Daniel Dennis & Company, Margaret Carr, CPA, and Susan Perna-Damon, CPA, in association with the Office of the State Auditor, have performed an independent audit of the Commonwealth's General Purpose Financial Statements (the financial statements). This is the fifth consecutive year that the Commonwealth's financial statements have been reported upon by independent auditors. Their report is presented in the Financial Section.

The report on the financial statements is a component of the state single audit. Other elements of the Commonwealth's comprehensive single audit include the Statutory Basis Financial Report, a Report on Compliance and Internal Control regarding programs which receive federal financial assistance, a Report on Compliance and Internal Control on programs which have no federal financial participation (state funding only), and a detailed listing of federal funding in the Schedule of Federal Financial Assistance.

INTERNAL CONTROL ENVIRONMENT

In FY 90, the Legislature enacted Chapter 647 of the Acts of 1989, the Internal Control Act. This statute had been recommended by the State Auditor and strongly supported by the Office of the State Comptroller. The Act directs departments to follow internal control guidelines promulgated by the Office of the State Comptroller and grants expanded responsibilities and authority to the Office of the State Auditor relative to department compliance. The two Offices have delivered several joint training sessions to hundreds of department managers to communicate the responsibility of management for internal control in modern computerized systems.

An absolute level of assurance is prohibitively expensive. Using risk assessment criteria set forth in the guidelines and stressed in the training, the objectives of the Commonwealth's internal control systems are to provide management with reasonable assurance that:

- financial and other resources are safeguarded against loss from unauthorized use or disposition;
- payrolls, encumbrances, payments and other transactions are executed in accordance with management authorizations;
- financial and statistical records and reports are accurate and reliable;
- applicable laws, regulations, and policies are adhered to; and,
- resources are efficiently and effectively managed.

This emphasis on internal controls, in concert with strong audit capacity and numerous accounting controls, provides a solid framework for accountability in financial operations.

REPORTING ENTITY

The financial statements include the 73 funds of the Commonwealth, incorporating the fiscal activities of the 170 state departments, agencies, boards, commissions, institutions of higher education, and constitutional offices. These 170 state departments record their daily financial business in the state accounting system.

In addition to the 170 state departments, the financial statements include an additional 16 authorities, the State Employees' and Teachers' Retirement Systems, and the financial operations of non-appropriated higher education funds. These component units meet the GAAP criteria for incorporation into the reporting entity. The reader is directed to Note 1 in the Notes to General Purpose Financial Statements for a more complete description of the criteria used to define the reporting entity.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The Office of the Comptroller operates the Massachusetts Management Accounting and Reporting System (MMARS), the centralized statewide accounting system. This accounting system is used by all departments to control and account for activity under the statutory basis of accounting. The financial operations of the 16 authorities and the non-appropriated higher education funds are accounted for through independent accounting systems.

Budgetary control is enforced through MMARS. The Legislature authorizes the level of spending through annual and supplemental appropriations. After notification by the Fiscal Affairs Division (the Budget Bureau) of the Executive Office for Administration and Finance, appropriations are posted in MMARS. According to state finance law, the Executive Office for Administration and Finance, may also reduce appropriations in certain circumstances. The Office of the Comptroller controls subsequent obligation and expenditure activity to ensure that the appropriation is not exceeded. As an additional control, certain transactions, such as service contracts, are individually regulated by the Comptroller and other oversight departments for compliance with other requirements.

MMARS is designed to satisfy all requirements under the statutory basis of accounting. In addition, MMARS accounts for most transactions (special accruals) which are needed for GAAP. Any additional information necessary for the GAAP financial statements is provided separately by the departments and the authorities and is compiled manually.

The differences between statutory accounting and GAAP accounting may be characterized as follows:

- basis difference - GAAP uses accruals and statutory is essentially cash, and

- the GAAP reporting entity includes the 16 authorities and the non-appropriated higher education funds that are not part of the state budget and, are not included for statutory reporting.

The reader is directed to Note 2 in the Notes to General Purpose Financial Statements for a reconciliation between the budgeted General and Special Revenue Funds to the GAAP basis presented in the General Purpose Financial Statements. Also, the reader is referred to the Statutory Basis Financial Report for an extensive description of the accounting system and budgetary control.

GOVERNMENTAL FUND OPERATIONS

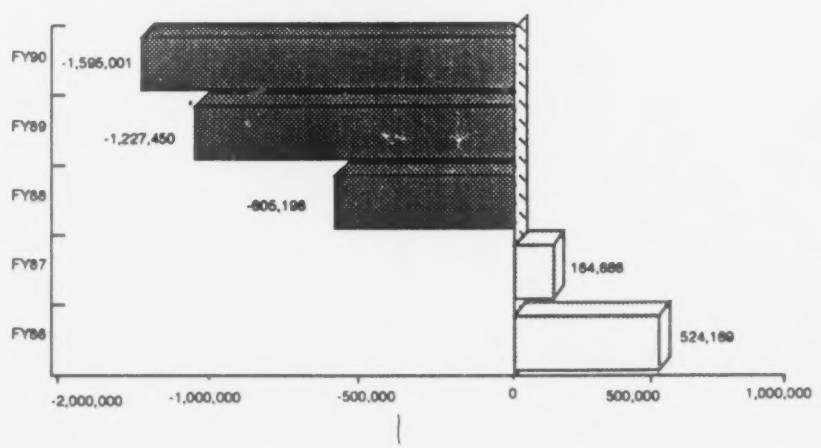
The Commonwealth organizes its 73 funds into Governmental, Proprietary and Fiduciary categories as stipulated by GASB. The three major categories are the Governmental Funds which include the General Fund, Special Revenue Funds, many of which are appropriated in the annual budget, and Capital Projects Funds. The Governmental Funds are the most complete indication of governmental financial operations.

GOVERNMENTAL FUND OPERATIONS
(amounts in thousands)

Revenues and other sources	FY 90	FY 89	Change $	Change %
Taxes	$ 9,006,621	$ 8,694,887	$ 311,734	4%
Federal grants and reimbursements	3,134,009	2,986,658	147,351	5%
Departmental and other revenues	3,427,797	2,965,809	461,988	16%
Transfers and other sources	2,611,266	2,458,093	153,173	6%
Total revenues and other sources	18,179,693	17,105,447	1,074,246	6%
Expenditures and other uses				
Legislative, judicial, executive constitutional offices and independent commissions	1,696,956	1,538,755	158,201	10%
Executive secretariats	9,643,289	9,101,338	541,951	6%
Direct local aid to cities and towns	2,936,911	2,960,946	(24,035)	(1%)
Capital outlay	1,137,162	1,236,159	(98,997)	(8%)
Pension	671,940	662,922	9,018	1%
Debt service	774,522	653,569	120,953	19%
Transfers and other uses	1,686,464	1,574,012	112,452	7%
Total expenditures and other uses	18,547,244	17,727,701	819,543	5%
Excess of expenditures and other uses over revenues and other sources	($ 367,551)	($ 622,254)	$ 254,073	

When analyzed on a GAAP basis, it is apparent that a significant deficiency of revenues over expenditures has occurred, for the past four fiscal years, resulting in substantial fund deficits.

GOVERNMENTAL FUND BALANCES
(amounts in thousands)



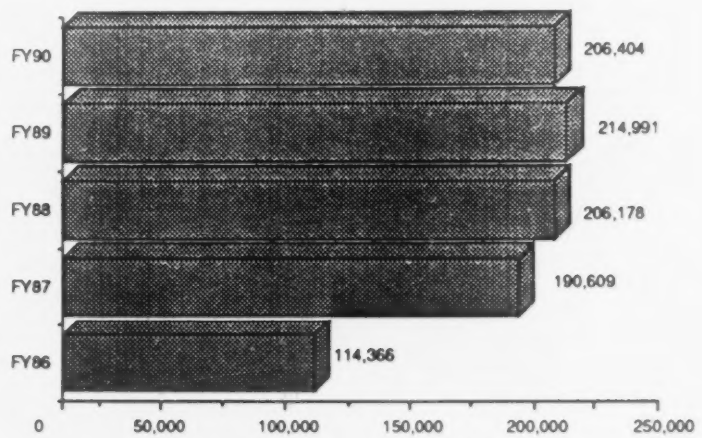
It has taken several years to accumulate the fund deficits in the governmental funds, and it will probably take several years to restore the fund balance to a positive position. A series of balanced budgets and annual surpluses, coupled with improvements in the underlying economy, is needed. Accomplishing the surpluses is difficult, but possible. A close examination of financial performance over the four-year period indicates that the financial decline is not as steep from FY 89 to FY 90 as it was in prior years. Apparently, actions by the Commonwealth, while not yet sufficient to reverse the trend, are having a favorable effect in constraining the trend. Many efforts are underway in the Executive and Legislative branches and continued attention to revenue and expenditure in all Commonwealth funds is necessary to achieve the goal of positive fund balance.

PROPRIETARY FUND OPERATIONS

The 16 authorities are reported as Enterprise Funds within the Proprietary Fund Type. As a group, they reported an annual decrease in retained earnings of $8.6 million from $215.0 million to $206.4 million.

PROPRIETARY FUND RETAINED EARNINGS

(amounts in thousands)



The reader is referred to Notes 1 and 10 in the Notes to General Purpose Financial Statements for additional detail on individual authorities.

FIDUCIARY FUND OPERATIONS

The Fiduciary Funds include the Expendable Trust, Nonexpendable Trust, Pension Trust and Agency Funds.

The Expendable Trust Funds ended FY 90 with a $822.6 million fund balance. This is mostly attributable to the $771.8 million balance in the Unemployment Compensation Fund. During the decade of the 1980's, the Unemployment Compensation Fund had been accumulating resources so that the fund balance at the end of FY 88 was $1.238 billion. In FY 89, for the first time in several years, withdrawals were greater than the deposits by $50.9 million. This trend accelerated in FY 90 as payments from the Unemployment Compensation Fund increased dramatically and withdrawals exceeded deposits by $415.7 million. Continuation of this trend into FY 91 could cause a fund deficit.

The Nonexpendable Trust Fund and the Agency Funds include assets held with restrictions and assets held temporarily on behalf of other parties. For these funds, the Commonwealth is acting in a fiduciary capacity to manage financial operations pursuant to restrictions placed by other parties or on behalf of other parties. The amount of assets managed by the Commonwealth increased $414.7 million to $3.656 billion in FY 90.

The Commonwealth is responsible for the pension benefits of the Commonwealth's employees and for the teachers of the cities, towns and regional school districts. The systems were originally designed to fund the pension benefit obligation on the "pay as you go" basis, where amounts were provided to pay current year benefits, with no provision made to fund future liabilities already incurred.

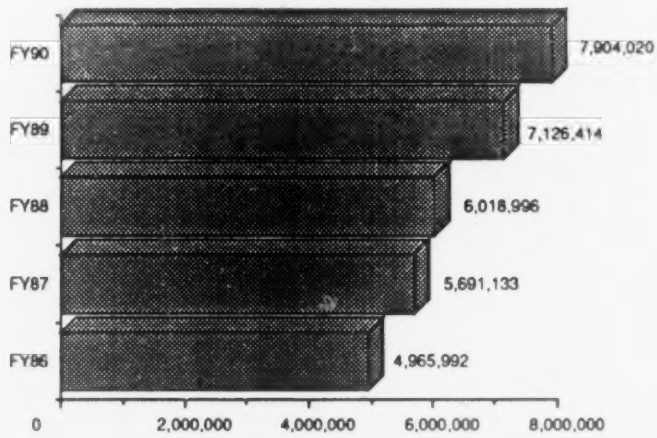
In FY 88, the Commonwealth enacted a pension reform law which included, among other items, a requirement to fund the unfunded pension liability. A 40-year funding schedule has been established to fund, on a current basis, the future pension liabilities. It is the responsibility of the Public Employee Retirement Administration (PERA), based upon information provided by the State Retirement Board, the Teachers Retirement Board, the Pension Reserve Investment Management Board and the local systems, to complete actuarial updates upon which the funding schedule depends. A significant aspect of the 40-year funding strategy requires that assets be accumulated, in a pension reserve, an investment vehicle, with no withdrawals, through 1999.

A periodic monitoring of the assets and comparison to the actuarially computed liability is called for by the law. According to PERA's actuarial report as of January 1, 1990, the public employee retirement systems are 42% funded, with an unfunded pension liability of $10.282 billion. The PERA report also details a schedule of state appropriation requirements that consistently increase in FY 91 and in the next 37 fiscal years, through the year 2028. While the appropriations increase, the unfunded pension liability also increases to a maximum of $25.058 billion in the year 2015. The unfunded liability decreases to zero in the year 2028. This legislatively-mandated schedule, as updated by the PERA actuary, is described in detail in the PERA report.

The combined fund balance of the State Employees' and the Teachers' Retirement Systems indicates progress in the accumulation of assets.

PENSION TRUST FUND BALANCES

(amounts in thousands)



Additional information on the retirement systems, including a calculation of the unfunded pension liability according to GASB Statement No. 5, is presented in Note 11 in the Notes to General Purpose Financial Statements.

CASH AND INVESTMENTS

Cash and investments are controlled by the State Treasurer pursuant to the requirements of state finance law. Each state department promptly transmits to the State Treasurer all cash receipts. Weekly warrants for disbursements are prepared by the Comptroller, reviewed and approved by the Governor's Council, and checks are issued by the State Treasurer. In addition, separate from the weekly warrant process, the State Treasurer is directed to issue certain other disbursements such as debt service and local aid distributions.

A system of bank account sweeps and lockboxes is employed by the Treasury to maximize daily cash balances. The State Treasurer manages these balances in pooled investment funds to maximize interest earnings. The Treasurer invests cash from its general accounts in short term securities and other investments. A complete disclosure of cash and investments is presented in Note 3 in the Notes to General Purpose Financial Statements.

The average daily investment balance for FY 90 was approximately $672 million. The interest income earned for the year was $25.7 million in the General Fund. Additional interest income of $31.7 million was earned in the Expendable Trust and other funds.

In FY 88, the Commonwealth started to experience cash flow problems that required the use of short term borrowing. As financial performance continued to be unfavorable in FY 89 and FY 90, the management of governmental cash flows became a matter of tremendous importance. To assist the Office of the State Treasurer in the accomplishment of its cash management responsibilities and to assure the efficient exchange of information, a group has been formed which is composed of the Office of the State Treasurer, the Office of the Comptroller, the Budget Bureau, and the Department of Revenue. The Treasury creates the governmental cash flow plans based upon the advice and assistance of these other offices. The management of taxes and other inflows, the warrants and other outflows, and short and long term borrowing is measured against the plan. The cash flow plan is updated as estimates and projections materialize into facts.

DEBT

For several years, the Commonwealth has been increasing its investment in capital assets to enhance and protect the infrastructure of Massachusetts. This trend is evidenced by increases in capital appropriations and related bond authorizations by the Legislature. At the end of FY 90, the amount of capital appropriations not yet expended was $6.5 billion and the amount of bonds authorized but not yet issued was $5.4 billion.

The following table sets forth the Commonwealth's long term indebtedness for the last five years and the ratio of such indebtedness to certain economic indicators (amounts in billions):

Fiscal year	Authorized - unissued	Outstanding long term debt	% of full value of real estate	% of personal income
1990	$5.4	$6.6	1.55%	4.77%
1989	6.3	5.4	1.44	4.12
1988	7.4	4.3	1.15	3.51
1987	4.3	4.0	1.80	3.57
1986	3.7	3.6	1.62	3.50

Approximately 35% of the principal amount of these bonds is scheduled for retirement within five years and approximately 65% of the total will be retired within ten years.

In addition to long term borrowing for the acquisition and construction of capital assets, the Commonwealth engages in other borrowing activities to support governmental cash flow.

The Treasurer may issue up to $50 million of small denomination minibonds annually. These bonds have a maximum term of 5 years, but, because they may be redeemed by the holder at any time, they are accounted for as demand bonds.

Under state finance law, other short term borrowing may be made by the State Treasurer with the approval of the Governor, with debt instruments being countersigned by the State Comptroller. During FY 90, short term borrowing included revenue anticipation notes and the issuance of commercial paper. This short term borrowing was repaid by the end of the fiscal year, with the exception of $110 million in notes associated with the Commonwealth's financial support of the Massachusetts Bay Transportation Authority, and certain special borrowings.

In the early part of FY 90, the Legislature authorized borrowing in the amount of $466.4 million to resolve the FY 89 budgetary deficit. Of this authorization, $415 million was issued as long term notes to be repaid in FY 91 and $51.4 million as notes to be repaid in FY 91. The legislation also authorized the payment of $488 million in Medicaid expenditures pertaining to FY 89 and prior service periods, to be financed by $244 million in notes to be repaid in FY 91 and the balance to be reimbursed by the federal government. To ensure sufficient resources are available to repay the $710.4 million in special borrowings, the Legislature enacted a special tax increase and directed these tax collections to be dedicated to a special account. The dedicated taxes and related interest income are expected to be sufficient to retire the special borrowings in FY 91 with a projected residual balance in the special account of approximately $20.2 million. While these bonds and notes are general obligations of the Commonwealth, the special circumstances of these borrowings merit this separate description.

Another type of debt consists of multi-year lease/purchase agreements. Sometimes referred to as tax exempt lease purchase, this is a method to acquire certain assets, such as computer equipment and motor vehicles, under favorable terms. The Commonwealth continued to utilize this form of financing in FY 90.

During FY 89 and FY 90, the Commonwealth's credit rating has been revised several times. As financial performance continued to be unfavorable, the credit rating was lowered by Standard and Poors and Moody's Investors Service but maintained by Fitch Investors Service. The current credit rating of the Commonwealth is BBB by Standard and Poors, Baa by Moody's Investors Service, and A by Fitch Investors Service. The additional costs associated with this lower credit rating are significant. Future improvement or change to the credit rating will be dependent upon the resolution of the fund deficits in the governmental funds.

For additional details on debt, the reader is referred to Notes 7, 8 and 9 in the Notes to General Purpose Financial Statements.

RISK FINANCING

The Commonwealth assumes the risk of loss for property damage and personal injury, breach of contract, condemnation proceedings, and other alleged violations of law. The Attorney General's Office defends the Commonwealth in lawsuits which may arise in the ordinary course of operations. In FY 90, $13 million was appropriated and expended to resolve such claims. Additional amounts for the payment of claims and judgments were directly expended from existing appropriations.

An accrual for $78.1 million in the General Fund has been included, based on an evaluation by the Attorney General of cases in which it is probable that a loss will be incurred and a judgment rendered against the Commonwealth. Major lawsuits considered by the Attorney General include Massachusetts Wholesalers v. Commonwealth (challenge to the escheat of Bottle Bill deposits to the Commonwealth), O'Sullivan v. Dukakis (litigation to compel changes at Bridgewater State Hospital) and Rate Setting Commission v. Division of Administrative Law (eight consolidated Medicaid rate appeals). A variety of smaller cases is also included.

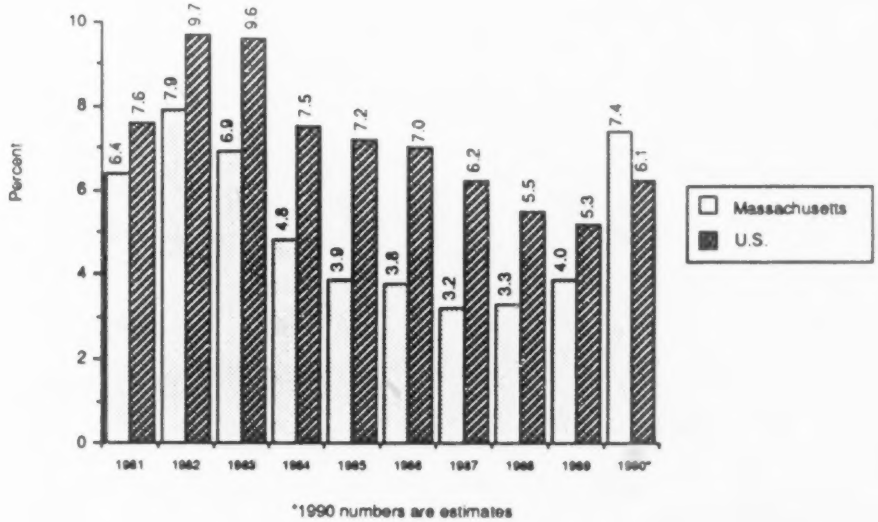
ECONOMIC AND FINANCIAL PROSPECTS

The regional and national economic forecasts by various parties share a common assessment that economic growth will continue to slow down during 1991. However, having established a strong foundation through critical public investment, Massachusetts is favorably positioned as the challenges of the new decade materialize.

One key indicator of economic prospects is the unemployment rate. The Massachusetts unemployment rate has compared favorably with other industrial states and the United States average over the past decade, although this trend did not continue into 1990.

UNEMPLOYMENT RATE - MASSACHUSETTS AND UNITED STATES

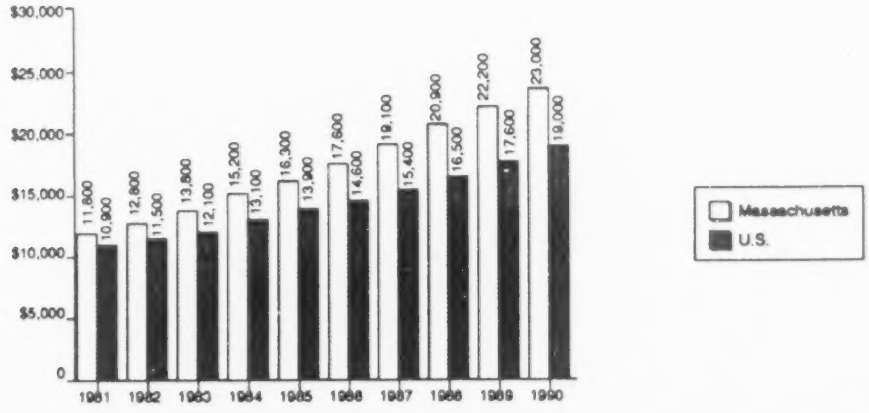
(amounts in thousands)



*1990 numbers are estimates

When viewed from the perspective of per capita income, perhaps the single best measure of individual well being in the economy, personal income for Massachusetts residents has compared favorably to the U.S. average.

PER CAPITA INCOME - MASSACHUSETTS AND UNITED STATES



The current economic picture is one of uncertainty. National and regional forecasters believe the economy will be in recession into 1991, based on projections that the real Gross National Product declined in the last quarter of 1990, is rebounding slightly in the first half of 1991, and will be on a sound footing by the second half of 1991 (the start of FY 92). The unemployment rate, inflation, and consumer confidence generally track this trend. However, the war in the Middle East could be a further negative influence on any forecast.

The unemployment rate in Massachusetts is forecasted to increase through the first half of 1991, and start to improve in the second half. Personal income, adjusted for inflation, is projected to fall in 1990 and 1991 due to low growth in nominal income and moderate to high levels of inflation. Wages and salaries are expected to have dropped at the end of 1990 and then grow slowly through the first half of 1991.

The underlying economy has had a significant influence on the Commonwealth's financial performance and is most visible in the financial statements of the budgeted funds. Revenues have been insufficient to match expenditures in the budgeted funds for the past four fiscal years. A significant fund balance had accumulated by the end of FY 86 so that this structural imbalance was affordable in FY 87. However, reserves were depleted so that the continued structural imbalance resulted in the current accumulated deficit. The debate and decisions on the state budget have been dominated by two considerations: first, to make changes to revenues and expenditures to correct the structural imbalance; and second, to implement deficit resolution actions for the FY 89 and FY 90 fund deficits. Many observers of the budget have been confused by the need to deal with the long term structural imbalance on the one hand while simultaneously meeting the imperative to resolve the immediate fund deficits. Although the structural issues and the deficit issues are intimately related, it is easier to understand the details by reviewing the items separately.

The structural imbalance is caused by diminishing net revenue growth juxtaposed against accelerating expenditure growth. The problem on the revenue side is taxes. As the economy has deteriorated, the yield in tax revenues has diminished. Income tax, sales tax, business corporation excise tax, motor fuels excise tax, and, more recently, estate tax have been continuously restated downward from the original projections used in the budget. Excluding special taxes dedicated to finance the FY 89 deficit, actual tax collections in FY 90 were 4% less than tax collections in the prior year. During the same period, non-tax revenue, such as federal reimbursements and departmental fines, fees, licenses, and assessments, has increased. Thus, decreases in tax revenue has been offset by increases in non-tax revenue, creating a flat or no-growth trend on the revenue side.

To address these revenue issues, the Commonwealth has enacted tax increases. First, a two-year tax increase specifically tied to the resolution of the FY 89 deficit was enacted. A second tax increase was enacted to fund the borrowing in order to resolve the FY 90 deficit and increase tax revenue for the FY 91 budget. In addition, several actions have been taken to maximize federal reimbursements and increase departmental revenues. These actions, while helpful to the overall financial picture, are by themselves not sufficient to counter the loss of tax revenues tied to the underlying economy. Thus, conservative and even pessimistic revenue forecasts are warranted for FY 91 and FY 92.

The spending side of the structural imbalance is dominated by seven large categories, sometimes called the "budget busters". These seven programs comprise over 60% of the state budget. Each category has been increasing its spending at rates that exceed revenue growth. The influence of these categories is demonstrated in the following table of budgeted expenditures.

Major Categories of Budgeted Expenditures

(amounts in millions)

	1990	1989	Change $	Change %
Local aid	$ 2,936.9	$ 2,960.9	($ 24.0)	(1)
Medicaid	2,120.6	1,833.5	287.1	16
Public Assistance	1,000.9	924.3	76.6	8
Debt Service	770.9	649.8	121.1	19
Pension	672.9	659.7	13.2	2
Health Insurance	433.4	341.4	92.0	27
Assistance to Authorities	354.5	309.5	45.0	15
Subtotal	8,290.1	7,679.1	611.0	8
All other purposes	5,184.6	5,182.0	2.6	
Total	$13,474.7	$12,861.1	$613.6	5

Local aid to cities and towns has been capped and has actually decreased slightly. Medicaid and Public Assistance Programs (Aid to Families with Dependent Children, General Relief) are entitlement programs with increasing caseloads related to worsening economic conditions. Controlling spending in these categories is a function of controlling caseloads, through eligibility restrictions, or rates through the rate setting process. Changes of this nature require statutory action. Debt service is dictated by the amortization schedule of prior bond issues; pension costs are determined by

the pension funding law; and assistance to public authorities is embodied in contracts between the Commonwealth and the respective authority. Thus none of these categories is subject to discretionary limit in the short run.

Health insurance costs to state employees have been increasing, even though the number of employees has decreased by over 7,000 full time equivalents, because of inflation in health care costs. Again, limiting such costs is a long and complex process. All other purposes in the government have essentially been level funded from FY 89 to FY 90.

Continued and diligent efforts are needed to constrain spending to match revenue. Special attention must be devoted to the "budget-buster" categories, and this will require some statutory changes.

The structural issues are manifestations of major underlying forces that will take years to change. While efforts are under way on this long term perspective, there has been an immediate requirement to resolve the deficits of FY 89 and FY 90. As mentioned previously, the resolution plan for FY 89 involved short term borrowing, to bridge the immediate cash need, to be repaid with a two-year tax increase. This plan has been in effect throughout FY 90 and will be completed by the end of FY 91. The plan for the FY 90 deficit follows a similar concept. Borrowing was done in early FY 91 to cover the immediate cash flows and a tax increase has been enacted. The borrowing is to be repaid within seven years, and the tax increase is expected to be sufficient to provide annual debt service on the special borrowing and help balance the FY 91 budget.

The structural forces described previously are causing a potential imbalance to the FY 91 budget. At the time of this report, five months remain to deal with this situation, and so the outcome for the end of FY 91 is uncertain. It is possible that action could be taken and circumstances materialize so that FY 91 ends in balance; it is also possible that another statutory deficit in the range of $100 million to $800 million could materialize.

The same structural forces are influencing the FY 92 budget development process and difficult choices pertaining to the structural imbalance of revenues and expenses will be presented in FY 92. The Commonwealth must continue to work on these long term structural issues to terminate the succession of yearly operating deficits, and commit itself to a budget program that reverses the trend and generates end of year positive fund balance.

SIGNIFICANT ACCOMPLISHMENTS

Although the financial performance of the Commonwealth continued to be unfavorable in FY 90, there were a number of significant accomplishments that have improved accountability and financial management.

For the past several years, the audited financial statements of the Commonwealth have had qualifications in the areas of fixed assets and pension reporting. For the year ended June 30, 1990, the qualifications have been removed.

A significant project was directed by the Office of the Comptroller to inventory all land, in addition to equipment, buildings and construction in

progress valued over $15,000. Since updated fixed asset records had not been maintained for several years, this project resulted in the reporting of an additional $778 million in the General Fixed Asset Account Group for FY 90. Also, the Office of the Comptroller has added a fixed asset subsystem to MMARS, the statewide accounting system, to facilitate the maintenance of fixed asset accounting for future years. This fixed asset project allows accurate accounting in the financial statements and supports improved asset management practices. The cooperation of several parties, including the respective departments, was key to the success of the project. It is also noteworthy that the project was completed by the Commonwealth's employees, as contrasted to the practices of many other states who spent large amounts on outside appraisers and consultants.

A second project involved the Public Employee Retirement Administration, the State Board of Retirement, the Teachers Board of Retirement, the Office of the State Treasurer, the Office of Management Information Systems, the Executive Office of Administration and Finance, and the Office of the Comptroller. This project updated underlying pension data to support an actuarial update to the pension benefit obligation. Again, as part of the project, automated systems have been enhanced to continue to generate the necessary data in future years. This project was also done mostly by Commonwealth employees, with minimal assistance from outside consultants.

The initiation of a non-tax revenue campaign was another significant accomplishment. In FY 90 the Legislature authorized the Office of the Comptroller to take a leadership role in projects to improve the management and accountability for non-tax revenues and to improve non-tax revenue collections. Non-tax revenues, generally described as federal reimbursements and departmental fines, fees, licenses, sales and assessments, had previously been loosely managed under the initiative of individual departments. Pursuant to the legislation, several projects were launched in numerous areas including: development of a statewide accounts receivable, billing, and collections subsystem to MMARS; promulgation of new and standardized revenue policies and procedures; and, implementation of revenue maximization projects. The non-tax revenue campaign is underway, and over $50 million in additional revenue was collected in FY 90. Since this is a multi-year effort, continued significant results should materialize in FY 91 and future years.

At the start of FY 91, there are many other significant initiatives underway. For example, the traditional scheme for expenditure coding by subsidiary and object codes had not been updated in 40 years. This limited the usefulness of certain management expenditure accounting data. A complete update has been done in the transition from FY 90 to FY 91. The Office of the Comptroller is also participating with several other parties to create a new personnel administrative reporting and information system (PARIS). This new system, which is to be operational in mid-FY 91, correlates personnel and payroll data from over 30 separate payroll systems and provides important management and executive information on state employees. It is likely that this new system will also serve as a model for the development of additional management and executive reporting systems.

RECOMMENDATIONS AND CONCLUSIONS

The Office of the Comptroller has a perspective on state finance based on insight gained through control of day-to-day operations and experience with generally accepted accounting principles. With this background, the Comptroller's Office recommends consideration of three proposals intended to strengthen state finance.

- The Commonwealth should modify state finance law so that the budget process is conducted in accordance with GAAP. For the past several years, the Commonwealth has been gradually modifying some of its budget practices to better conform with GAAP. For example, the measurement of payroll expenses was changed in FY 89 to a "365-day-year", thus matching the GAAP definition and eliminating the occasional "53-week-year" phenomenon.

  The time has come to officially embrace GAAP in the budget process. This will promote the identification of important financial trends in a more accurate and timely manner. The major differences between GAAP and the statutory basis are accruals for taxes receivable, Medicaid liability, liabilities for legal claims and judgments, and compensated absences. The Office of the Comptroller believes that bringing this information into the process will encourage a better-informed budget debate and enhance decision making.

- Regarding financial management, the Office of the Comptroller believes that more attention should be directed to the budgeting and management of revenues. For years, the Commonwealth has emphasized expenditure planning and control, but has not matched this with investments to improve non-tax revenue management. The Commonwealth does not have official or authoritative budgets for non-tax revenue. There are several alternative ways to prepare revenue budgeting, and, after consideration of the options, relevant legislation should be enacted. Also, the basic structure for revenue management needs attention. For example, there are insufficient computer systems to support revenue. Policies and procedures need to be modernized, requiring legislation in many cases. The Commonwealth ought to examine incentives for revenue management. The study on retained revenue recently issued by the Office of the Comptroller contains several proposals in this regard.

- Consistent with the prior recommendations, the Office of the Comptroller believes the Commonwealth should simplify the current fund structure. The proliferation of special purpose budgeted funds has fractured, not strengthened, the budget process. As special interest groups enjoy political success in carving out dedicated revenues and removing operations from the budget, the capacity for centralized control is diminished. Also, the numerous non-budgeted Special Revenue Funds and Capital Projects Funds create inefficiencies that work contrary to a comprehensive view of state finance. Legislation should be enacted to simplify the fund structure and to rationalize the current practices of "fund splitting" appropriations and interfund transfers. This would result in a more coherent and understandable picture of state finance.

In conclusion, this report represents the continued commitment of the Office of the Comptroller to promote and improve the financial management of state government. I express my sincere appreciation to the many individuals whose hard work has resulted in this report. I am fortunate to interact with highly motivated professionals in this Office and throughout state government. Even in times of financial difficulty, it is a pleasure to work with persons of such high caliber.

Respectfully submitted,

William Kilmartin

William Kilmartin
Comptroller

COMMONWEALTH OF MASSACHUSETTS

Financial Section

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Deloitte & Touche

125 Summer Street
Boston, Massachusetts 02110-1617
Telephone (617) 261-8000

Facsimile (617) 261-8111

Independent Auditors' Report

Mr. William Kilmartin, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying general purpose financial statements of the Commonwealth of Massachusetts as of June 30, 1990, and for the year then ended, listed in the table of contents. These general purpose financial statements are the responsibility of the Commonwealth of Massachusetts' management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Pension Reserve Investment Trust, an investment vehicle for certain of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements which reflect 21 and 14 percent, respectively, of the assets and revenues of the Trust and Agency Funds Type. Except for the Massachusetts Technology Development Corporation, which represents less than one percent of assets and revenues, we did not audit the financial statements of the entities which comprise the Enterprise Funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Trust and Agency and Enterprise Funds referred to above, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, such general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Massachusetts as of June 30, 1990, and the results of its operations and changes in cash flows of its proprietary fund type and similar trust funds for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 6 to the general purpose financial statements, the Commonwealth changed its method for accounting for general fixed assets during the year ended June 30, 1990. As also discussed in Notes 11 and 16, to the general purpose financial statements, the Commonwealth changed its method for accounting for pension expenditures in the General and Special Revenue Funds during the year ended June 30, 1990.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements, schedules, and required supplementary information, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the Commonwealth of Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report and, accordingly, we express no opinion on such data.

Deloitte & Touche

January 25, 1991

COMMONWEALTH OF MASSACHUSETTS -

GENERAL PURPOSE FINANCIAL STATEMENTS

COMMONWEALTH OF MASSACHUSETTS

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1990

(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
ASSETS	General	Special Revenue	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long term Obligations	1990	1989
Cash and short term investments	$1,192,225	$ 12,717	$ 0	$ 150,664	$ 764,472	$ 0	$ 0	$ 2,120,078	$ 1,668,686
Amounts on deposit with U.S. Treasury					682,442			682,442	1,102,728
Investments				131,026	8,211,761			8,342,787	7,556,592
Investments of deferred compensation plan					531,180			531,180	420,766
Annuity contracts					800,867			800,867	697,000
Assets held in trust					1,134,303			1,134,303	866,274
Receivables, net of allowance for uncollectibles:									
Taxes	733,254	289,149			139,113			1,161,516	906,566
Due from federal government	428,405	87,290	59,676	9,266				584,637	738,254
Loans				48,616				48,616	55,930
Other receivables	84,333	42,496		37,495	40,348			204,672	168,876
Due from cities and towns	179,486							179,486	175,000
Due from other funds	358,903	1,352,391	74,890	233,499	185,349			2,205,032	1,328,601
Inventory				50,270				50,270	47,216
Fixed assets				7,200,416		3,460,252		10,660,668	9,421,472
Restricted and other assets				752,934				752,934	611,180
Amounts available for retirement of long term obligations							461,303	461,303	
Amounts to be provided for retirement of long term obligations							9,055,752	9,055,752	7,249,001
Total assets	$2,976,606	$1,784,043	$134,566	$8,614,186	$12,489,835	$3,460,252	$9,517,055	$38,976,543	$33,014,142

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1990

(Amounts in thousands)

LIABILITIES, FUND EQUITY AND OTHER CREDITS	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long term Obligations	1990	1989
Liabilities:									
Accounts payable	$1,182,510	$ 229,882	$169,154	$ 113,140	$ 52,559	$ 0	$ 0	$ 1,747,245	$ 2,084,153
Accrued payroll	26,888	6,777	587	14,244	525			49,021	50,973
Tax refunds and abatements payable	270,983	181,119						452,102	313,966
Other accrued liabilities	244,323	55,923	1,782	243,702	1,173		169,676	716,579	689,517
Due to cities and towns		1,266,452			8,945			1,275,397	343,355
Due to other funds	1,768,846	101,633	250,236	16,765	67,552			2,205,032	1,328,601
Deferred revenue	67,102	49,831		136,254	6,010			259,197	122,274
Prizes payable					800,867			800,867	697,000
Agency liabilities					2,797,152			2,797,152	2,541,421
Obligations under lease/purchase and other financing arrangements							57,446	57,446	59,045
Bonds and notes payable	405,400		210,788	2,944,619			6,605,039	10,165,846	8,145,461
School construction grants							1,415,804	1,415,804	1,038,555
Unfunded pension costs							1,145,871	1,145,871	555,846
Compensated absences							123,219	123,219	125,357
Total liabilities	3,966,052	1,891,617	632,547	3,468,724	3,734,783		9,517,055	23,210,778	18,095,524
Fund equity and other credits:									
Investment in general fixed assets						3,460,252		3,460,252	2,682,128
Contributed capital				4,939,058				4,939,058	4,859,919
Retained earnings:									
Reserved				24,117				24,117	24,757
Unreserved				182,287				182,287	190,234
Fund balances (deficit):									
Reserved for:									
Unemployment benefits					771,795			771,795	1,187,470
Pension benefits					7,904,020			7,904,020	7,126,414
Debt service	461,303							461,303	
Unreserved	(1,450,749)	(107,574)	(497,981)		79,237			(1,977,067)	(1,152,304)
Total fund equity (deficit) and other credits	(989,446)	(107,574)	(497,981)	5,145,462	8,755,052	3,460,252		15,765,765	14,918,618
Total liabilities, fund equity and other credits	$2,976,606	$1,784,043	$134,566	$8,614,186	$12,489,835	$3,460,252	$9,517,055	$38,976,543	$33,014,142

See notes to general purpose financial statements.

(Concluded)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1990

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1990	1989
Revenues:						
Taxes	$ 5,951,893	$3,054,728	$ 0	$ 553,639	$ 9,560,260	$ 9,174,157
Assessments	160,903	116,287		1,127	278,317	244,216
Federal grants and reimbursements	1,885,350	1,061,784	186,875		3,134,009	2,986,658
Departmental	841,346	2,087,547	429	3,595	2,932,917	2,559,076
Miscellaneous	189,152	32,003	130	196,913	418,198	338,377
Total revenues	9,028,644	6,352,349	187,434	755,274	16,323,701	15,302,484
Other financing sources:						
Proceeds of general obligation bonds	415,000		1,015,483		1,430,483	1,374,271
Proceeds of refunding bonds						226,450
Proceeds of obligations under lease/purchase and other financing arrangements	6,731				6,731	34,575
Operating transfers	294,205	776,058	73,842	8,738	1,152,843	814,943
Other			29,947	583	30,530	17,919
Total other financing sources	715,936	776,058	1,119,272	9,321	2,620,587	2,468,158
Total revenues and other sources	9,744,580	7,128,407	1,306,706	764,595	18,944,288	17,770,642
Expenditures:						
Current:						
Legislature	44,185				44,185	49,377
Inspector General	1,083				1,083	1,379
Judiciary	79,758	225,623		100	305,481	280,432
Executive	4,817				4,817	6,170
Secretary of the Commonwealth	9,826	717			10,543	13,906
Treasurer and Receiver - General	83,196	1,133,939		23	1,217,158	1,022,113
Auditor of the Commonwealth	11,386			374	11,760	12,593
Attorney General	28,572	925		1,293	30,790	42,973
Ethics commission	898				898	1,091
District Attorney	13,113	33,757		487	47,357	81,158
Administration and finance	745,355	205,223		3,096	953,674	495,117
State Comptroller	5,665				5,665	5,107
Environmental affairs	69,941	101,125		8,390	179,456	188,019
Communities and development	212,887	190,489		275	403,651	390,067
Human services	5,698,616	348,894		9,559	6,057,069	5,878,663
Transportation and construction	11,815	51,053		1,304	64,172	61,624

(Continued)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1990

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1990	1989
Expenditures (continued):						
Current (continued):						
Education	29,476	302,922		3,774	336,172	333,903
Higher education	1,001,873	148,819		37,808	1,188,500	1,202,732
Public safety	45,006	109,163		1,241	155,410	165,359
Economic affairs	27,908	130,794		1,092,750	1,251,452	838,174
Elder affairs	125,415	24,552		15	149,982	174,921
Consumer affairs	25,738	7,970		1,322	35,030	51,311
Labor	21,509	1,081		17,395	39,985	33,597
Independent commissions	5,362	19,799		4	25,165	28,209
Direct local aid to cities and towns	91,605	2,845,306			2,936,911	2,960,946
Capital outlay:						
Local aid			208,420		208,420	111,642
Capital acquisition and construction			928,742		928,742	1,124,517
Pension	237,102	434,838			671,940	662,922
Debt service:						
Principal retirement	253,212	98,939			352,151	304,487
Interest and fiscal charges	310,683	111,688			422,371	349,082
Total expenditures	9,196,002	6,527,616	1,137,162	1,179,210	18,039,990	16,871,591
Other financing uses:						
Payment to refunded bond escrow agent						226,450
Operating transfers	829,865	770,249	86,350	1,353	1,687,817	1,356,178
Other						47
Total other financing uses	829,865	770,249	86,350	1,353	1,687,817	1,582,675
Total expenditures and other uses	10,025,867	7,297,865	1,223,512	1,180,563	19,727,807	18,454,266
Excess (deficiency) of revenues and other sources over expenditures and other uses	(281,287)	(169,458)	83,194	(415,968)	(783,519)	(683,624)
Fund balances (deficit) at beginning of year	(708,159)	61,884	(581,175)	1,238,527	11,077	694,701
Fund balances (deficit) at end of year	($ 989,446)	($ 107,574)	($ 497,981)	$ 822,559	($ 772,442)	$ 11,077

See notes to general purpose financial statements.

(Concluded)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - STATUTORY BASIS -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED JUNE 30, 1990

(Amounts in thousands)

	General Fund			Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Taxes	$5,361,290	$5,361,290	$ 0	$3,156,378	$3,156,378	$ 0	$ 8,517,668	$ 8,517,668	$ 0
Assessments	164,504	164,504		6,587	6,587		171,091	171,091	
Federal grants and reimbursements	1,707,330	1,707,330		10,182	10,182		1,717,512	1,717,512	
Departmental	511,115	511,115		391,567	391,567		902,682	902,682	
Miscellaneous	175,560	175,560		6,230	6,230		181,790	181,790	
Total revenues	7,919,799	7,919,799		3,570,944	3,570,944		11,490,743	11,490,743	
Other financing sources:									
Operating transfers	430,435	430,435		761,418	761,418		1,191,853	1,191,853	
Accounts payable balances reverted	3,645	3,645		3,359	3,359		7,004	7,004	
Total other financing sources	434,080	434,080		764,777	764,777		1,198,857	1,198,857	
Total revenues and other sources	8,353,879	8,353,879		4,335,721	4,335,721		12,689,600	12,689,600	
Expenditures:									
Current:									
Legislature	50,325	44,072	6,253				50,325	44,072	6,253
Inspector General	1,109	1,083	26				1,109	1,083	26
Judiciary	80,985	79,516	1,469	233,129	229,532	3,597	314,114	309,048	5,066
Executive	4,997	4,824	173				4,997	4,824	173
Secretary of the Commonwealth	10,189	9,886	303				10,189	9,886	303
Treasurer and Receiver - General	89,708	88,439	1,269	1,080,400	1,080,344	56	1,170,108	1,168,783	1,325
Auditor of the Commonwealth	11,113	11,102	11				11,113	11,102	11
Attorney General	16,762	16,276	486	826	782	44	17,588	17,058	530
Ethics commission	926	919	7				926	919	7
District Attorney	14,303	13,194	1,109	32,662	31,824	838	46,965	45,018	1,947
Administration and finance	878,206	826,127	52,079	213,435	208,900	4,535	1,091,641	1,035,027	56,614
State Comptroller	5,789	5,281	508				5,789	5,281	508
Environmental affairs	71,585	69,719	1,866	87,286	83,892	3,394	158,871	153,611	5,260
Communities and development	216,145	213,842	2,303	13,088	10,606	2,482	229,233	224,448	4,785
Human services	5,665,372	5,481,113	184,259	21,523	21,420	103	5,686,895	5,502,533	184,362
Transportation and construction	362,196	361,980	216	151,446	150,398	1,048	513,642	512,378	1,264

(Continued)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - STATUTORY BASIS -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED JUNE 30, 1990

(Amounts in thousands)

	General Fund			Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures (continued):									
Current (continued):									
Education	41,704	37,675	4,029	1,743,040	1,734,737	8,303	1,784,744	1,772,412	12,332
Higher education	710,462	700,746	9,716	278	273	5	710,740	701,019	9,721
Public safety	42,775	40,588	2,187	95,210	93,394	1,816	137,985	133,982	4,003
Economic affairs	35,697	31,441	4,256	9,812	9,447	365	45,509	40,888	4,621
Elder affairs	136,845	127,865	8,980				136,845	127,865	8,980
Consumer affairs	28,797	25,358	3,439	3,377	3,243	134	32,174	28,601	3,573
Labor	21,804	21,421	383	315	296	19	22,119	21,717	402
Independent commissions	6,087	5,369	718	17,127	17,127		23,214	22,496	718
Pension	237,732	236,274	1,458	434,178	433,222	956	671,910	669,496	2,414
Debt service:									
Principal retirement	255,509	253,212	2,297	97,347	97,228	119	352,856	350,440	2,416
Interest and fiscal charges	311,082	310,683	399	110,168	109,824	344	421,250	420,507	743
Total expenditures	9,308,204	9,018,005	290,199	4,344,647	4,316,489	28,158	13,652,851	13,334,494	318,357
Other financing uses:									
Operating transfers:									
Pension	828	828		1,615	1,615		2,443	2,443	
Other	31,067	42,076	(11,009)	47,398	95,681	(48,283)	78,465	137,757	(59,292)
Total other financing uses	31,895	42,904	(11,009)	49,013	97,296	(48,283)	80,908	140,200	(59,292)
Total expenditures and other uses	9,340,099	9,060,909	279,190	4,393,660	4,413,785	(20,125)	13,733,759	13,474,694	259,065
Excess of expenditures and other uses over revenues and other sources	(986,220)	(707,030)	279,190	(57,939)	(78,064)	(20,125)	(1,044,159)	(785,094)	259,065
Fund deficit at beginning of year	(107,958)	(107,958)		(211,370)	(211,370)		(319,328)	(319,328)	
Fund deficit at end of year	($1,094,178)	($ 814,988)	$279,190	($ 269,309)	($ 289,434)	($20,125)	($ 1,363,487)	($ 1,104,422)	$259,065

See notes to general purpose financial statements.

(Concluded)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENSES,
CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CHANGES IN CONTRIBUTED CAPITAL -
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1990

(Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)	
	Enterprise Funds	Nonexpendable Trust Fund	Pension Trust Funds	1990	1989
Operating revenues:					
Contributions	$ 0	$ 561	$ 878,528	$ 879,089	$ 866,106
Investment income		4,988	590,224	595,212	901,425
Charges for services	552,620			552,620	450,546
Other	7,589			7,589	13,215
Total operating revenues	560,209	5,549	1,468,752	2,034,510	2,231,292
Operating expenses:					
Cost of services and administration	882,040	1,165	3,877	887,082	803,287
Retirement benefits and refunds			687,269	687,269	652,586
Depreciation	207,516			207,516	177,922
Total operating expenses	1,089,556	1,165	691,146	1,781,867	1,633,795
Operating income (loss)	(529,347)	4,384	777,606	252,643	597,497
Nonoperating revenues (expenses):					
Operating grants	20,402			20,402	32,737
Interest income	59,234			59,234	41,128
Other revenues	8,462			8,462	15,305
Interest expense	(197,798)			(197,798)	(151,846)
Other expenses	(39,075)			(39,075)	(47,779)
Nonoperating revenues (expenses), net	(148,775)			(148,775)	(110,455)
Income (loss) before transfers	(678,122)	4,384	777,606	103,868	487,042

(Continued)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENSES,
CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CHANGES IN CONTRIBUTED CAPITAL -
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1990

(Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)	
	Enterprise Funds	Nonexpendable Trust Fund	Pension Trust Funds	1990	1989
Operating transfers	534,974			534,974	541,235
Net income (loss)	(143,148)	4,384	777,606	638,842	1,028,277
Add: Depreciation of fixed assets acquired from contributed capital	134,561			134,561	89,947
Increase (decrease) in retained earnings/fund balances	(8,587)	4,384	777,606	773,403	1,118,224
Retained earnings/fund balances at beginning of year	214,991	24,089	7,126,414	7,365,494	6,247,270
Retained earnings/fund balances at end of year	$ 206,404	$28,473	$7,904,020	$8,138,897	$7,365,494
Contributed capital at beginning of year	$4,859,919	$ 0	$ 0	$4,859,919	$4,772,550
Add: Capital contributions	213,700			213,700	177,316
Less: Depreciation of fixed assets acquired from contributed capital	(134,561)			(134,561)	(89,947)
Contributed capital at end of year	$4,939,058	$ 0	$ 0	$4,939,058	$4,859,919

See notes to general purpose financial statements.

(Concluded)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND

FISCAL YEAR ENDED JUNE 30, 1990

(Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise Funds	Nonexpendable Trust Fund	1990	1989
Cash flows from operating activities:				
Operating income (loss)	($ 529,347)	$ 4,384	($ 524,963)	($506,842)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	207,516		207,516	177,922
Change in assets and liabilities:				
Investments	20,228		20,228	(17,722)
Due from federal government	82		82	57
Loans receivable	7,314		7,314	(37,685)
Other receivables	(3,955)	(3,824)	(7,779)	21,412
Due from other funds	(21,238)	(3)	(21,241)	27,720
Inventory	(3,054)		(3,054)	(2,595)
Restricted and other assets	(141,754)		(141,754)	(219,955)
Accounts payable	10,942		10,942	17,800
Accrued payroll	7,624		7,624	6,619
Other accrued liabilities	22,547		22,547	60,473
Due to other funds	(4,885)		(4,885)	3,957
Deferred revenue	27,826		27,826	25,426
Total adjustments	129,193	(3,827)	125,366	63,429
Net cash provided by (used for) operating activities	(400,154)	557	(399,597)	(443,413)

(Continued)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND

FISCAL YEAR ENDED JUNE 30, 1990

(Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise Funds	Nonexpendable Trust Fund	1990	1989
Cash flows from noncapital financing activities:				
Operating grants	20,402		20,402	32,737
Operating transfers	534,974		534,974	541,235
Nonoperating revenues (expenses), net	(30,613)		(30,613)	(32,474)
Net cash provided by noncapital financing activities	524,763		524,763	541,498
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(668,588)		(668,588)	(639,988)
Proceeds from the issuance of bonds and notes	1,726,701		1,726,701	790,936
Interest on bonds and notes	(197,798)		(197,798)	(151,846)
Capital contributions	213,700		213,700	177,316
Principal payments on bonds and notes	(1,252,805)		(1,252,805)	(283,516)
Net cash used for capital and related financing activities	(178,790)		(178,790)	(107,098)
Cash flows from investing activities:				
Interest on investments	59,234		59,234	41,128
Net increase in cash and cash equivalents	5,053	557	5,610	32,115
Cash and cash equivalents at beginning of year	145,611	18,226	163,837	129,154
Cash and cash equivalents at end of year	$ 150,664	$18,783	$ 169,447	$161,269

See notes to general purpose financial statements.

(Concluded)

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1990

1. Summary of Significant Accounting Policies:

The accompanying financial statements of the Commonwealth of Massachusetts (the Commonwealth) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commonwealth's accounting policies are described below.

a. Reporting entity -

The financial statements include the departments, agencies, boards, and commissions governed by the legislative, judicial and constitutional offices of the Commonwealth, the institutions of higher education, and the State Employees' and Teachers' Retirement Systems. Also included are the independent authorities and other organizations over which oversight authority is exercised. These authorities, which are included as Enterprise Funds, were included based on the ability by the Commonwealth to exercise oversight responsibility, evidenced by:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

Additional criteria used to determine inclusion included scope of public service and special financing relationships.

These authorities are included in the reporting entity:

Massachusetts Bay Transportation Authority (MBTA)
Massachusetts Convention Center Authority (MCCA)
Massachusetts Water Resources Authority (MWRA)

The following authorities are combined as the Medical and Educational Facilities Fund:

Higher Education Building Authorities:
- Massachusetts State College Building Authority (MSC)
- Southeastern Massachusetts University Building Authority (SMU)
- University of Lowell Building Authority (U Lowell)
- University of Massachusetts Building Authority (U Mass)

University of Massachusetts Medical School - Group Practice Plan
University of Massachusetts Medical School Teaching Hospital Trust
University of Massachusetts Medical Center Self Insurance Trust

1. Summary of Significant Accounting Policies (Continued):

a. Reporting entity (continued) -

The following authorities are combined as the Economic Development Fund:

Bay State Skills Corporation
Government Land Bank
Massachusetts Community Development Finance Corporation
Massachusetts Industrial Finance Agency
Massachusetts Technology Development Corporation
Massachusetts Technology Park Corporation

The financial statements do not include the Massachusetts Home Finance Agency, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority, Massachusetts Port Authority or Massachusetts Turnpike Authority. The Commonwealth does not have the ability to significantly influence operations, nor does it guarantee the debt of these entities. Therefore, the Commonwealth does not exercise oversight responsibility over them. In addition, it has no special financing relationships with these entities.

b. Fund accounting -

The Commonwealth reports its financial position and results of operations in funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses.

Account groups are accounting entities used to account for the Commonwealth's general fixed assets and general long term obligations. These account groups are not funds as they do not reflect available financial resources and related liabilities.

Individual funds are classified into three fund categories: governmental, proprietary and fiduciary. Each is divided into separate fund types.

The Commonwealth has established the following fund categories, fund types and account groups:

Governmental Funds - account for the general governmental functions of the Commonwealth.

1. Summary of Significant Accounting Policies (Continued):

b. Fund accounting (continued) -

The General Fund is the primary operating fund of the Commonwealth. It is used to account for all transactions, except those required to be accounted for in another fund.

Special Revenue Funds are used to account for specific revenue sources, other than expendable trusts or major capital financing, that have been segregated according to state finance law to support specific governmental activities.

Capital Projects Funds are used to account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived principally from proceeds of general obligation bonds, federal grants and transfers from other governmental funds.

Proprietary Funds - are used to account for activities similar to those found in the private sector where net income and capital maintenance are measured.

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Fiduciary Funds - are used to account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Expendable Trust Funds are used to account for trusts whose principal and income may be expended for their designated purpose.

The Nonexpendable Trust Fund is used to account for trusts whose principal cannot be spent.

Pension Trust Funds are used to account for the assets, liabilities and fund equities held in trust for the State Employees' and Teachers' Retirement Systems.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

1. Summary of Significant Accounting Policies (Continued):

b. Fund accounting (continued) -

Account Groups - establish control and accountability over the Commonwealth's general fixed assets and long term obligations.

The General Fixed Assets Account Group is used to account for general fixed assets of the Commonwealth, which exclude the fixed assets of the Enterprise Funds.

The General Long Term Obligations Account Group is used to account for general long term obligation bonds and notes payable of the Commonwealth, obligations under lease/purchase and other financing arrangements, unpaid pension costs, compensated absences, claims and judgments and other long term obligations, except for the liabilities of the Enterprise Funds.

c. Basis of accounting -

Governmental, Expendable Trust and Agency Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long term obligations are recorded as fund liabilities when due.

Enterprise, Nonexpendable Trust and Pension Trust Funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Statutory (budgetary) accounting -

The Commonwealth's budgets are adopted in accordance with a statutory basis of accounting which is not in accordance with GAAP. Revenues are generally recognized when cash is received. However, federal reimbursements are recognized when related expenditures are incurred.

1. Summary of Significant Accounting Policies (Continued):

c. Basis of accounting (continued) -

Statutory (budgetary) accounting (continued) -

Amounts due from certain political subdivisions of the Commonwealth and certain dedicated tax revenues considered measurable and available at June 30, 1990, are also recognized. Expenditures are recorded when the related cash disbursement occurs. However, at year end, payroll is accrued and payables are recorded to the extent of approved encumbrances, provided that the goods or services have been received by June 30. Other encumbrances are lapsed.

Under the statutory basis of accounting,, the Commonwealth uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

d. Cash and investments -

The Commonwealth follows the practice of pooling cash and cash equivalents for all Governmental and Fiduciary Funds. Cash equivalents consist of short term investments with an original maturity of three months or less and are stated at cost. All pooled cash is accounted for in the General Fund. All other funds' portions of pooled cash are accounted for as interfund receivables/payables. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and to certain Special Revenue Funds when so directed by law.

Equity securities of the Pension Trust Funds and deferred compensation plan investments are stated at market. All other investments are stated at cost.

e. Receivables -

Receivables are stated net of estimated allowances for uncollectible accounts. Amounts due to the Commonwealth as reimbursement for expenditures on federally funded programs are included as due from the federal government.

1. Summary of Significant Accounting Policies (Continued):

f. Inventories -

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased. Such inventories are not material in total to the financial statements. Inventories included within Enterprise Funds are stated at the lower of cost or market, on a first-in, first-out method.

g. Fixed assets -

For Governmental Funds, general fixed assets are recorded as expenditures in the acquiring fund and capitalized in the General Fixed Assets Account Group in the year purchased. General fixed assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value at the time of the donation.

The Commonwealth capitalizes all land. It capitalizes buildings and equipment which have a cost in excess of $15,000 at the date of acquisition and an expected useful life of greater than one year. Interest incurred during construction is not capitalized. Infrastructure (roads, bridges, tunnels, dams, water and sewer systems, etc.) is not capitalized. No depreciation is provided on general fixed assets.

Fixed assets of the Enterprise Funds are capitalized upon purchase and depreciated on a straight line basis over the estimated useful life of the asset. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are as follows:

Structures and improvements	3 - 100 years
Equipment, furniture, fixtures and vehicles	3 - 10 years

h. Interfund transactions -

During the course of operations, the Commonwealth has transactions between departments or between funds. Transactions of a buyer/seller nature between departments within a fund are eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are classified as "due from other funds" or "due to other funds" on the balance sheet.

1. Summary of Significant Accounting Policies (Continued):

i. Compensated absences -

Employees are granted vacation and sick leave in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their then-current rate of pay. The Commonwealth recognizes its liability for the estimated value of such accumulated leave time.

For Governmental Funds, vested or accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability. Amounts of accumulated vacation and sick leave that are not expected to be so liquidated are reported in the General Long Term Obligations Account Group. In the Enterprise Funds, employees accumulated vacation and sick leave are recorded as an expense and liability of these funds as the benefits accrue.

j. Lottery revenue and prizes -

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. Certain prizes are payable in installments for which the Commonwealth purchases annuities. These annuity contracts, which are purchased in the Commonwealth's name, are recorded as annuity contracts and prizes payable in the Agency Funds.

k. Risk financing -

The Commonwealth does not insure for workers' compensation, casualty, theft, tort claims and other losses. Losses for casualty, theft, tort claims and other are reported as accrued liabilities in the accompanying financial statements.

l. Reservations of fund balances and retained earnings -

Reserves represent portions of fund balances and retained earnings that are legally restricted for a specific future use.

Fund balance reserved for unemployment benefits represents assets available to fund future unemployment benefit payments.

1. Summary of Significant Accounting Policies (Continued):

l. Reservations of fund balances and retained earnings (continued) -

Fund balance reserved for pension benefits represents the assets available to finance retirement benefits of the State Employees' and Teachers' Retirement Systems.

Fund balance reserved for debt service represents the assets available to repay debt issued to finance the Commonwealth's statutorily-defined deficit at June 30, 1989.

In the Enterprise Funds, reserved retained earnings represent amounts committed for specific uses such as loans to small Massachusetts businesses, or property repairs and maintenance.

m. Total columns - memorandum only -

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present consolidated financial position, results of operations or cash flows. Interfund eliminations have not been made in the aggregation of this data.

2. Budgetary Control:

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature which includes estimates of revenues, expenditures and other financing sources and uses anticipated during the coming fiscal year. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies in an annual appropriation act. The Legislature is not required to publish estimates of revenue and other financing sources. Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override. Changes to this budget may be made via supplemental appropriation acts or other legislative acts which must be approved by the Legislature and signed by the Governor.

For fiscal year 1990, the original appropriations act totaled approximately $12,124,000,000. This was later amended to reduce total appropriations by approximately $137,000,000. During fiscal year 1990, several supplemental budgetary and capital appropriations were enacted which aggregated approximately $565,000,000. Legislation passed

2. Budgetary Control (Continued):

subsequent to June 30, 1990 authorized the expenditure of $126,000,000 for Medicaid provided in prior fiscal years and tax refunds of approximately $18,000,000. Fiscal year 1989 appropriations authorized for continuation and fiscal year 1990 retained revenues totaled approximately $125,000,000 and $931,000,000, respectively.

Appropriations are enacted for most General Fund and certain Special Revenue Fund activities. For these funds, a Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Statutory Basis - Budget and Actual - General and Special Revenue Funds is included. For the General Fund, this combined budget and actual statement presents general governmental activities budgeted for fiscal year 1990; it excludes certain non-budgeted activities. The budgeted Special Revenue Funds presented are the Highway, Local Aid and Other.

The Commonwealth adopts two types of appropriations in the annual budget process. The majority lapse at the end of each year. The others are continuing appropriations for which the Legislature has authorized any unspent funds from the prior year to be carried forward and made available for current spending. In addition, the Legislature may direct that certain revenues be retained and made available for spending within the appropriation account that generates them. Expenditures may not legally exceed the authorized level of spending on an individual appropriation account basis.

Certain interfund assessments have, however, been mandated by the Legislature to allocate fringe benefits and other costs. These allocations are not part of the appropriation process and are not budgeted.

The original budget for revenue submitted by the Governor is not amended to coincide with any legislative changes to the original expenditure budget. As a result, the Commonwealth does not have legally updated revenue budgets, and actual revenues are reported.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual appropriation account basis. Budgetary control is exercised through the Massachusetts Management Accounting and Reporting System (MMARS). MMARS ensures that encumbrances or expenditures are not processed if they exceed the appropriation accounts total available spending authorization which is considered its budget.

2. Budgetary Control (Continued):

A MMARS report, internally identified as RPT226, is used by management and the Office of the Comptroller to monitor spending against budget. This report provides information at the appropriation account level, which is the legal level of budgetary control. It is available from the Office of the Comptroller. For financial reporting, the Commonwealth groups these appropriation accounts by character and secretariat to conform to its organizational structure.

The following is a reconciliation of the statutory basis excess (deficiency) of revenues and other sources over expenditures and other uses of the budgeted General and Special Revenue Funds to the GAAP basis presented in the financial statements (amounts in thousands):

	General	Special Revenue
Deficiency of revenues and other sources over expenditures and other uses (statutory basis)	($707,030)	($ 78,064)
Entity differences:		
Excess of revenues and other sources over expenditures and other uses for:		
Non-budgeted activities of the General Fund related to certain Medicaid obligations and deficit reduction	461,302	
Non-appropriated higher education funds	1,770	4,324
Non-budgeted Special Revenue Funds		31,178
Basis of accounting differences:		
Net decrease in taxes receivable	(28,696)	(28,963)
Net increase (decrease) in due from federal government	(81,148)	128
Net increase (decrease) in receivables and other assets	(52,611)	2,181
Net increase in tax refunds and abatements payable	(65,270)	(43,478)
Net (increase) decrease in accounts payables and other liabilities	190,396	(56,764)
Deficiency of revenues and other sources over expenditures and other uses (GAAP basis)	($281,287)	($169,458)

3. Deposits and Investments:

Cash and cash equivalents -

The Commonwealth maintains a cash pool, accounted for in the General Fund, which is available for use by all funds except the Enterprise Funds. For purposes of this disclosure, cash and cash equivalents includes bank deposits, certificates of deposits and restricted cash of the Enterprise Funds. As of June 30, 1990, the carrying amount of the Commonwealth's total cash and cash equivalents was $429,429,000 and the corresponding bank balances were $454,821,000. Bank deposits were insured in the amount of $16,808,000 by the Federal Deposit Insurance Corporation and $438,013,000 were uninsured and uncollateralized.

Investments -

The Commonwealth maintains an investment pool, the Massachusetts Municipal Depository Trust (MMDT), that is available for use by all funds. The deposits and investments of the Enterprise Funds and the investments of the Pension Trust Funds are held separately from those of other state funds, with the exception of their investments in MMDT.

Statutes authorize the Commonwealth to invest in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poors Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Investments in the MMDT are carried at cost, which approximates market. The investment policies of the Enterprise Funds are the same as the Commonwealth's, except that they permit investment in equity securities.

The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments.

3. Deposits and Investments (Continued):

Investments (continued) -

In accordance with GAAP, short term investments and investments as detailed in the following paragraphs are classified as to credit risk by the three categories described below:

Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

Investments at June 30, 1990, are as follows (amounts in thousands):

	Carrying amount				
Investment	Category 1	Category 2	Category 3	Total	Market value
Repurchase agreements	$ 152,907	$ 4,775	$ 27,375	$ 185,057	$ 185,069
U.S. Treasury Obligations	1,150,823	29,695	109,937	1,290,455	1,286,170
Certificates of deposit	369,238	12,758	159,764	541,760	541,760
Commercial paper	744,173			744,173	744,173
Government Obligations	1,220,779			1,220,779	1,220,779
Massachusetts Municipal Depository Trust	1,204,277			1,204,277	1,204,277
Equity securities	3,167,509		7,050	3,174,559	3,174,334
Fixed income securities	873,158			873,158	873,158
Notes			46,823	46,823	45,987
Guaranteed income contracts			304,234	304,234	304,234
Other	893,478			893,478	893,478
	$9,776,342	$47,228	$655,183	10,478,753	10,473,419
Money market investments				200,713	200,713
Mutual fund investments				51	51
Deferred compensation plan mutual funds				531,180	531,180
Annuity contracts				800,867	800,867
Total				$12,011,564	$12,006,230

3. Deposits and Investments (Continued):

Investments (continued) -

The Pension Trust Funds hold approximately 82% of the investments that are ir category 1 and the Enterprise Funds hold 87% and 80% of the investments in Categories 2 and 3, respectively.

As described above, short term and restricted investments are reported on the combined balance sheet as cash and short term investments and restricted and other assets, respectively. Therefore, the total carrying amount of investments disclosed is different from the total carrying amount reported on the combined balance sheet.

The following is a reconciliation of the two different investment amounts at June 30, 1990 (amounts in thousands):

	Amount
Investments as disclosed above	$12,011,564
Less: Short term investments reported in the combined balance sheet as cash and short term investments	1,690,649
Restricted investments reported in the combined balance sheet as restricted and other assets	646,081
Deferred compensation plan mutual funds separately disclosed in the combined balance sheet as investment of deferred compensation plan	531,180
Annuity contracts separately disclosed in the combined balance sheet	800,867
Investments as reported on the combined balance sheet	$ 8,342,787

The following is a reconciliation of the balance of cash and short term investments as reported on the combined balance sheet at June 30, 1990 (amounts in thousands):

Carrying amount of cash and cash equivalents	$ 429,429
Short term investments	1,690,649
Cash and short term investments as reported on the combined balance sheet	$2,120,078

4. Receivables:

The following schedule details the taxes, federal, loans and other receivables presented in the various funds (amounts in thousands):

	Taxes receivable	Due from federal government	Loans and other receivables	Allowance for uncollectible accounts	Net receivables
General Fund	$ 904,530	$431,706	$233,683	($323,927)	$1,245,992
Special Revenue Funds	393,874	87,290	46,194	(108,423)	418,935
Capital Projects Funds		59,676			59,676
Enterprise Funds		9,266	104,221	(18,110)	95,377
Trust and Agency Funds	139,113		41,918	(1,570)	179,461
Total	$1,437,517	$587,938	$426,016	($452,030)	$1,999,441

5. Interfund transactions -

Interfund receivables and payables include the following at June 30, 1990 (amounts in thousands):

	Due from	Due to
General Fund:		
Special Revenue Funds:		
Federal Grants	$ 0	$ 69,781
Highway		77,590
Local Aid		1,010,485
Lotteries		39,185
Universal Health Care		48,498
Oil Overcharge		43,647
Other	24,350	60,705
Capital Projects Funds:		
General	86,504	
Highway		47,864
Federal	154,544	
Local Aid	4,067	25,672
Other	5,121	1,354
Enterprise Funds:		
MBTA		139,153
MCCA		19,486
Economic Development		77
Medical and Educational Facilities	16,765	
Fiduciary Funds:		
Expendable Trusts	3,921	50,863
Nonexpendable Trusts		5,859
Pension Trust	52,959	43,532
Agency	10,672	85,095
	358,903	1,768,846
Special Revenue Funds:		
General Fund	1,349,891	24,350
Special Revenue Funds:		
Local Aid		2,500
Lotteries	2,500	
Enterprise Funds:		
MBTA		74,783
	1,352,391	101,633
Capital Projects Funds:		
General Fund	74,890	250,236
Enterprise Funds:		
General Fund	158,716	16,765
Special Revenue Highway Fund	74,783	
	233,499	16,765
Fiduciary Funds:		
General Fund	185,349	67,552
Total	$2,205,032	$2,205,032

6. Fixed Assets:

General fixed assets -

The following schedule shows the breakdown of the general fixed assets by category at June 30, 1990 (amounts in thousands):

	Amount
Land	$ 303,005
Buildings	2,512,876
Machinery and equipment	354,966
Construction in progress	289,405
Total	$3,460,252

For the year ended June 30, 1990, the Commonwealth completed a project for upgrading its fixed assets accounting, including its valuation and capitalization methodology. This project resulted in the net increase of approximately $778,000,000 of general fixed assets. It was not practicable to determine the changes in general fixed assets for the year then ended.

Fixed assets of the authorities comprising the Commonwealth's Enterprise Funds consisted of the following at June 30, 1990 (amounts in thousands):

	Amount
Land and improvements	$ 231,067
Structures and improvements	6,279,690
Equipment, furniture, fixtures and vehicles	1,097,127
	7,607,884
Less accumulated depreciation	1,095,865
	6,512,019
Property held for expansion	13,443
Construction in progress	674,954
Total	$7,200,416

7. Short Term Debt/Lines of Credit:

The Commonwealth has issued temporary notes and advances in anticipation of revenue or bond financing. This short term debt does not meet the long term debt refinancing criteria, and it is therefore classified among fund liabilities.

General Fund -

The Commonwealth issues temporary notes to provide working capital to the MBTA. The Commonwealth redeems the temporary notes through payments from cities and towns and future appropriations. These temporary notes outstanding at June 30, 1990, totaled $110,000,000, with an interest rate of 6.65%. Subsequent to June 30, 1990, the Commonwealth's short term financing on behalf of the MBTA was increased to $228,500,000 with an interest rate of 7.45%.

During fiscal year 1990, the Commonwealth also issued short term general obligation notes to finance expenditures and obligations of the prior fiscal year. These notes totaled $295,400,000 at interest rates ranging from 6.47% to 6.7%. The entire amount of these notes is outstanding at June 30, 1990.

Capital Projects Funds -

The Commonwealth issues Bond Anticipation Notes to finance capital projects in anticipation of future bond offerings. Notes outstanding at June 30, 1990, were $32,600,000 with interest rates ranging from 5.95% to 6.4%.

The Commonwealth also issues minibonds, five-year term bonds which are redeemable on demand, to finance capital projects. The minibonds outstanding at June 30, 1990, totaled $178,188,000, with interest rates ranging from 4.65% to 9.7%.

7. Short Term Debt/Lines of Credit (Continued):

Line of credit agreements -

The Commonwealth has entered into a letter of credit agreement with a group of banks to borrow up to $1,200,000,000. The agreement provides for advances, subject to certain limitations, bearing interest at the bank rate, as defined, in anticipation of revenue or bond issuance proceeds. These advances are repayable by September 30, following the advance, or may be converted to term advances at the Commonwealth's option. In addition, the agreement provides for guarantees of Commonwealth short term borrowings. The combination of advances and guarantees cannot exceed the maximum amount of the line. Certain fees are payable on utilized and unutilized amounts. No amounts were drawn under this agreement during the year ended June 30, 1990. Commitment fees totaled $785,000.

The Commonwealth also maintains a line of credit agreement with another bank through June 30, 1992, in the amount of $150,000,000. Interest is charged at the federal funds rate plus 1.5%, or prime, whichever is less. A commitment fee is payable quarterly on the excess of the commitment amount over the average daily outstanding principal amount drawn. No amounts were drawn under this agreement during the year ended June 30, 1990. Commitment fees totaled $50,000.

8. Long Term Debt:

General long term obligation bonds of the Commonwealth are authorized and issued primarily to provide funds for state-owned capital projects and local government improvements. General obligation bonds are paid from the governmental funds, in which debt service principal and interest payments are appropriated. The bonds are backed by the full faith and credit of the Commonwealth. Under the Constitution of the Commonwealth of Massachusetts, both Houses of the Legislature must approve, by a separate enabling act, the authorization to incur debt for a specific purpose or objective. Thereafter, the issuance of bonds generally occurs after the expenditure has been made for that specific purpose or objective.

During fiscal year 1990, general long term obligation notes were issued to finance, in part, the statutorily-defined fund deficit at June 30, 1989. These notes were designated Commonwealth Liability Reduction Loan, Act of 1989. They were secured by the pledge of certain dedicated tax revenues and the investment earnings thereon.

8. Long Term Debt (Continued):

General long term debt outstanding and bonds authorized - unissued at June 30, 1990, are as follows (amounts in thousands):

Purpose	Outstanding Interest rates	Outstanding Amount	Authorized - unissued Amount	Maturity dates
Deficit Reduction:				
Commonwealth Liability Reduction	6.51% to 6.64%	$ 415,000	$ 0	1990
Capital Projects:				
General Capital Projects	1.00% to 12.00%	4,050,156	3,708,109	1991-2010
Government Land Bank	1.00% to 14.25%	18,409		1991-2010
Federally Assisted Housing	5.60% to 9.63%	8,579	2,245	1991-2003
Highway Fund	1.00% to 11.75%	1,349,301	519,266	1991-2009
Inland Fisheries and Game	4.60%	50		1991-1995
State Recreation Areas	1.00% to 12.00%	67,807	21,546	1991-2009
Metropolitan Parks	1.00% to 12.00%	62,603	26,750	1991-2009
Metropolitan Sewerage	0.10% to 10.20%	54,285		1991-2015
Metropolitan Water	0.10% to 12.00%	73,240		1991-2025
Local Aid	5.00% to 9.25%	483,794	1,097,142	1991-2010
Inter-city Bus	6.30% to 9.25%	4,815	8,685	1991-1993
Environmental Challenge	6.30% to 9.25%	17,000		1991-2010
Subtotal		6,190,039	5,383,743	
Total		$6,605,039	$5,383,743	

Changes in long term debt and bonds authorized - unissued for the year ended June 30, 1990, are as follows (amounts in thousands):

	Long term debt	Authorized - unissued
Balance, July 1, 1989	$5,370,627	$6,323,810
Bond issuances (net of discount)		(1,062,607)
Increase in bonds authorized		122,914
Expiration of authorizations		(374)
Bond issuances	1,430,483	
Bond discount	131,869	
Bonds retired (excluding minibonds)	(327,940)	
Balance, June 30, 1990	$6,605,039	$5,383,743

8. Long Term Debt (Continued):

At June 30, 1990, general long term debt service requirements to maturity for principal and interest are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1991	$ 773,857	$ 411,540	$ 1,185,397
1992	382,074	371,840	753,914
1993	388,785	345,862	734,647
1994	398,535	319,466	718,001
1995	400,163	292,643	692,806
1996 and thereafter	4,261,625	1,694,511	5,956,136
Total	$6,605,039	$3,435,862	$10,040,901

Subsequent to June 30, 1990, the Commonwealth issued $529,057,000, including discount, of general obligation bonds maturing between 1998 and 2010 with interest rates ranging from 7.0% to 7.5%. These bonds proceeds fund capital spending authorizations from prior fiscal years. The Commonwealth also issued, subsequent to June 30, 1990, dedicated income tax bonds in a total amount of $1,363,000,000, with maturities from 1992 to 1997 and interest rates from 7.0% to 7.625%. Bond anticipation notes totaling $600,000,000, at an interest rate of 7.0%, had been issued, subsequent to June 30, 1990, in anticipation of these bonds and were subsequently repaid with the bond proceeds.

Legal Debt Limit -

During fiscal year 1990, the Commonwealth set a limit on the principal amount of its direct debt outstanding, effective at the beginning of fiscal year 1991. The first-year limit is $6,800,000,000, with 5% increases in each successive fiscal year. Direct debt issued in excess of the limit will not be backed by the full faith and credit of the Commonwealth. Subsequent to June 30, 1990, the terms of the debt limitation were amended. The dedicated income tax bonds issued to finance the Commonwealth's statutorily-defined deficit for fiscal year 1990 are to be specifically excluded from the definition of direct debt.

Defeased Bonds -

In prior years, the Commonwealth defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. On June 30, 1990, approximately $603,000,000 of bonds outstanding are considered defeased.

8. Long Term Debt (Continued):

Changes in general long term obligations -

The Commonwealth records its liability for long term debt in the General Long Term Obligations Account Group. Other general long term obligations recognized by the Commonwealth are its obligations under lease/purchase and other financing arrangements (Note 13), school building assistance grants to partially reimburse cities and towns for payments on bonds issued to finance construction of local or regional schools, compensated absences (Note 1), unfunded pension costs (Note 11) and claims and judgments related primarily to lawsuits pending or threatened (Notes 1 and 15).

During the year ended June 30, 1990, the following changes occurred in liabilities reported in the General Long Term Obligations Account Group (amounts in thousands):

	General obligation bonds	Obligations under lease/purchase and other financing arrangements	School building assistance	Compensated absences	Unfunded pension costs	Claims and judgments	Total
Balance, July 1, 1989	$5,370,627	$59,045	$1,038,555	$125,357	$ 555,846	$ 99,571	$7,249,001
Bond issuances	1,430,483						1,430,483
Bond discount	131,869						131,869
Bond principal payments (excluding minibonds)	(327,940)						(327,940)
Lease/purchase and other financing arrangements obligations		6,731					6,731
Lease/purchase and other financing arrangements payments		(8,330)					(8,330)
Excess of total contributions required over total contributions made					590,025		590,025
Net increase (decrease)			377,249	(2,138)		70,105	445,216
Balance, June 30, 1990	$6,605,039	$57,446	$1,415,804	$123,219	$1,145,871	$169,676	$9,517,055

8. Long Term Debt (Continued):

Changes in general long term obligations (continued) -

The amount for bond issuances above represents the face amount of the bonds issued, and differ from the amounts included in the combined statement of revenues, expenditures and changes in fund balances due to treatment of original issue discount.

Enterprise Funds:

Bonds and notes -

Bonds and notes outstanding, net of unamortized discount of $15,862,000, at June 30, 1990, are as follows (amounts in thousands):

Purpose	Interest rates	Amount	Maturity dates
MBTA:			
General Transportation System Bonds	3.81% to 10.11%	$1,268,205	1990-2019
Boston Metropolitan District Bonds	3.00% to 8.75%	66,113	1991-2025
Notes Payable	6.75% to 7.00%	290,000	1991
Certificates of Participation	6.30% to 7.80%	27,415	1991-2016
Other	5.50% to 6.88%	96,400	1991
MCCA:			
Serial Bonds	5.25% to 9.90%	105,365	1990-2001
Term Bonds	9.13% to 10.00%	52,245	2001-2005
MWRA:			
1990 Series A Bonds	6.00% to 7.63%	789,865	1991-2020
Medical and Educational Facilities:			
MSC:			
Project and Refunding Revenue Bonds	5.00% to 7.80%	94,975	1990-2016
SMU:			
Project Revenue Bonds	3.00% to 7.80%	36,928	1996-2016
U Lowell:			
Project Revenue Bonds	3.00% to 9.00%	31,172	1991-2018
U Mass:			
Project and Refunding Revenue Bonds	5.75% to 9.88%	85,903	1991-2014
Economic Development:			
Various		33	1991
Total		$2,944,619	

8. Long Term Debt (Continued):

Enterprise Funds (continued):

Bonds and notes (continued) -

MBTA -

The legislative act under which the MBTA was established provides that if, at any time, the MBTA is unable to meet any interest or principal due on any bond issued by the MBTA, sufficient funds will be remitted by the Commonwealth to meet such obligations.

On October 2, 1990, $120,000,000 of maturing notes was refinanced by the issuance of new notes with a face value of $125,000,000, with an interest rate of 7.25%, which mature on October 1, 1991. In December 1990, the MBTA issued $230,000,000 of General Transportation System Bonds to provide permanent financing for capital improvements previously financed with commercial paper.

MCCA -

The legislative act authorizing the issuance of debt securities by MCCA provides for participation by the Commonwealth of Massachusetts in the full payment of the annual debt service costs.

MWRA -

The bonds are collateralized by a lien and pledge on certain revenues and other moneys of MWRA. The discount on and the cost of issuing the bonds, aggregating $47,313,000, are being amortized over the life of the bonds.

MWRA has entered into an interest rate swap, maturing in October 2000, for which the notional amount is $90,000,000. MWRA has also entered into a future interest rate swap, effective in 1994 and maturing in August 2000, for which the notional amount is $78,000,000. Under both of the aforementioned interest rate swaps, MWRA pays variable interest rates, based on Kinney Information Services Index, and receives interest at a fixed rate of 7.56%.

As of July 1, 1985, MWRA assumed responsibility to repay the Commonwealth for all principal and interest payments related to $141,703,000 of debt issued by the Commonwealth in connection with the Metropolitan District Commission sewer and waterworks prior to July 1, 1985. The Commonwealth's debt consists of approximately 140 different debt instruments, with varying interest rates and maturity dates, and MWRA's share of principal payable amounted to $87,119,000 at June 30, 1990. These amounts are included in the General Long Term Obligations Account Group of the Commonwealth and as contributed capital in the Enterprise Funds.

8. Long Term Debt (Continued):

Enterprise Funds (continued):

Bonds and notes (continued) -

Medical and Educational Facilities -

The enabling legislation relating to the Facilities provides for financial support from the Commonwealth in the form of full faith and credit guarantees.

Maturities of principal are as follows (amounts in thousands):

Year ending June 30	MBTA	MCCA	MWRA	Medical and Educational Facilities	Economic Development	Total
1991	$ 429,309	$ 10,675	$ 9,848	$ 3,768	$33	$ 453,633
1992	43,810	11,500	17,480	3,950		76,740
1993	47,025	12,405	18,068	5,536		83,034
1994	46,531	13,415	18,336	6,202		84,484
1995	47,931	10,250	18,819	6,583		83,583
1996 and thereafter	1,149,087	99,365	707,314	223,241		2,179,007
Total	$1,763,693	$157,610	$789,865	$249,280	$33	$2,960,481

The amounts above represent the face amount of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the general purpose financial statements.

During the year ended June 30, 1990, the following changes occurred in bonds and notes payable reported in the Enterprise Funds (amounts in thousands):

	MBTA	MCCA	MWRA	Medical and Educational Facilities	Economic Development	Total
Balance, July 1, 1989	$1,460,234	$167,545	$589,221	$250,208	$3,515	$2,470,723
Bond issuances	936,400		788,999	1,284	18	1,726,701
Bond principal payments	(648,501)	(9,935)	(588,355)	(2,514)	(3,500)	(1,252,805)
Balance, June 30, 1990	$1,748,133	$157,610	$789,865	$248,978	$ 33	$2,944,619

9. Individual Fund Deficits:

The General Fund, several Special Revenue and Capital Projects Funds have fund deficits at June 30, 1990, as follows (amounts in thousands):

Fund	Deficit amount
General	$989,446
Special Revenue:	
Highway	37
Local Aid	335,944
Other	24,677
Capital Projects:	
General	332,472
Federal	138,518
Local Aid	7,766
Other	19,929

Subsequent to June 30, 1990, the Commonwealth acted to address the increased deficits. These actions were primarily directed toward resolving the deficits in the General and the Special Revenue Local Aid Funds.

In October 1990, dedicated income tax bonds totaling $1,343,954,000 were issued. The $1,309,000,000 net proceeds approximated the fiscal 1990 deficit as statutorily defined. In December 1990, an additional $55,100,000 was issued, with net proceeds of $54,000,000. This raised the total deficit financed to $1,363,000,000 of the $1,421,200,000 maximum authorized. Bonds so issued are repayable no later than December 31, 1997, and are secured by dedicated income tax increases and interest thereon.

The Commonwealth expects to continue its policy of accelerating the issuance of general long term obligation bonds to fund capital projects expenditures on a more current basis.

10. Segment Information - Enterprise Funds:

Selected financial information with respect to various segment activities included in the Enterprise Funds is as follows (amounts in thousands):

	Segments				
	Transportation	Conventions and parking	Water supply and waste disposal	Medical and educational facilities	Economic development
Operating revenues	$ 137,882	$ 10,387	$ 174,972	$234,942	$ 2,026
Depreciation	121,098	9,658	59,906	9,728	7,126
Operating income (loss)	(486,698)	(15,538)	7,072	(527)	(33,656)
Operating grants	18,899			412	1,091
Nonoperating revenues (expenses)	(76,265)	(16,891)	(49,854)	(13,717)	7,952
Operating transfers	472,097	20,481		27,457	14,939
Net income (loss)	(90,866)	(11,948)	(42,782)	13,213	(10,765)
Current capital contributions	134,815	8,493	70,918	263	(789)
Fixed asset additions	426,022	3,632	196,091	42,071	772
Total assets	4,237,559	291,010	3,307,008	621,110	157,499
Bonds and notes payable	1,748,133	157,610	789,865	248,978	33
Total retained earnings (deficit)	(131,157)	7,341		254,230	75,990

11. Retirement Systems:

The Commonwealth is responsible for the pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the Commonwealth (members of the teachers' retirement system, except for teachers in the Boston public schools, who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the MBTA, and of counties, cities and towns (other than teachers) are covered by separate retirement systems. The members of the retirement systems do not participate in the Social Security System. The Commonwealth has also assumed responsibility for payment of cost-of-living adjustments (COLA) for local retirement systems.

Plan descriptions -

State Employees' Retirement System (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies. TRS is administered by the Commonwealth and is part of the reporting entity.

Teachers' Retirement System (TRS) is a single employer defined benefit PERS covering certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy Junior College. The Commonwealth is responsible for all contributions and future benefit requirements of TRS. TRS is administered by the Commonwealth and is part of the reporting entity.

In addition, the Commonwealth is responsible for certain additional pension costs as follows:

State - Boston Retirement System (SBRS) is a single employer defined benefit PERS. The Commonwealth is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth, and it is not part of the reporting entity.

11. Retirement Systems (Continued):

Plan descriptions (continued) -

Cost of Living Adjustment (COLA) -

The Commonwealth has assumed financial responsibility for the COLA granted to participants in the retirement systems of cities, towns and counties. Any future COLA granted by the Legislature to employees of these plans will also be the responsibility of the Commonwealth. The individual employer governments are responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth, and are not part of the reporting entity.

Membership -

Current membership in SERS, TRS and SBRS as of January 1, 1990 is as follows:

	SERS	TRS	SBRS
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	45,243	33,857	2,128
Active employees	94,942	61,415	5,057
Total	140,185	95,272	7,185

The covered payroll for employees of the Commonwealth covered by SERS was $2,801,000,000, which approximates the total payroll. The covered payroll for employees of the cities and towns covered by TRS is $2,227,000,000 which approximates the total payroll. The covered payroll for employees of the City of Boston covered by SBRS is $163,000,000, which approximates the total payroll.

Benefit provisions -

All PERS in the Commonwealth are established under the Uniform Massachusetts Contributory Retirement System requirements of the General Laws. These requirements provide uniform benefit and contribution requirements for all systems. The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

11. Retirement Systems (Continued):

Benefit provisions (continued) -

The retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

Funding status and progress -

The amounts shown below as the pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarially determined present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

The pension benefit obligations were computed as part of the actuarial valuation performed as of January 1, 1990. Significant actuarial assumptions used in the valuation include (a) rates of return on investments of present and future assets of 8% per year, (b) projected salary increases of 6% per year (c) cost of living increases of 3% per year (d) rate of inflation of 4-1/2% per year and (e) interest rate credited to the annuity saving fund of 5-1/2% per year.

11. Retirement Systems (Continued):

Funding status and progress (continued) -

The total unfunded pension benefit obligation is as follows (amounts in millions):

	SERS	TRS	SBRS	COLA	Total
Pension benefit obligation:					
Retirees and others currently receiving benefits	$2,760	$2,233	$248	$1,721	$ 6,962
Terminated employees entitled to benefits but not yet receiving them	540	1,308	92		1,940
Current Employees:					
Accumulated employee contributions including allocated interest	1,409	1,509	121		3,039
Commonwealth Financed:					
Non-vested	433	107	16	110	666
Vested	1,758	3,088	194	448	5,488
Total pension benefit obligation	6,900	8,245	671	2,279	18,095
Net assets available for benefits at market	3,741	3,797	275		7,813
Unfunded pension benefit obligation	$3,159	$4,448	$396	$2,279	$10,282

11. Retirement Systems (Continued):

Contributions required and contributions made -

The retirement systems funding policies have been established by statute. The annuity portion of the SERS and TRS retirement allowance is funded by employee contributions of regular compensation - 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975, through December 31, 1983, and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above $30,000 per year for those hired on or after January 1, 1979.

The Commonwealth's contribution for the pension benefit portion of the retirement allowance of SERS and TRS and required payments to cover SBRS and COLA contributions were originally established on a "pay-as-you-go" basis. As a result, amounts were appropriated each year to pay current benefits and a provision was not made to fully fund future liabilities already incurred. Beginning in fiscal year 1989, the Commonwealth began to address the unfunded liability of SERS and TRS. The Pension Reform Act of 1987 requires funding on a current basis, including amortizing the unfunded liabilities over 40 years and the liabilities for future payments of cost-of-living adjustments to local systems.

This legislation directs the Secretary of Administration and Finance to prepare a funding schedule to meet these requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. The schedule requires the payment of normal cost plus an amortization payment of the actuarial liability. The amortization payments must be such that the unfunded actuarial liability as of January 1, 1987 is reduced to zero by June 30, 2028 and these payments may not increase at a rate higher than 7-1/2% per year. In addition, for the ten years ending June 30, 1998, the total payments must be no less than the total estimated cost of benefits in each of those years and the Pension Reserve Fund shall not be allowed to decrease from its value at January 1, 1998, increased by 8% per year. Any such schedule is subject to legislative approval.

11. Retirement Systems (Continued):

Contributions required and contributions made (continued) -

However, if a schedule is not approved by the Legislature, payments are to be made in accordance with the most recently approved schedule. The first funding schedule, based on January 1, 1987, data, was filed with the Legislature on March 1, 1988. A revised funding schedule has been completed as part of the January 1, 1990 valuation and is based on an unfunded accrued liability of $10,868,938,000. Because the revised funding schedule has yet to be approved by the Legislature, the January 1, 1987 funding schedule is in effect and payments of $646,500,000 by the Commonwealth were required for the year ended June 30, 1990. As discussed below, this methodology does not produce a contribution that meets the minimum requirement of GAAP.

GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they not be less than:

- Normal cost
- Interest on any unfunded prior service costs
- A provision for vested benefits when the total present value of vested benefits exceeds by 5% or more the value of the plan

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability. However, the amortization of the accrued actuarial liability has been legislatively determined to be significantly lower in the first years of the 40-year funding period. Therefore, the fiscal year 1990 contribution did not materially cover the minimum expenditure recognition required by GAAP. Therefore, the difference between the total contributions required and the total contributions made, as discussed below, was recorded as a liability in the General Long Term Obligations Account Group.

11. Retirement Systems (Continued):

Contributions required and contributions made (continued) -

Contributions required and made based on the minimum expenditure recognition required by GAAP are as follows (amounts in millions):

	SERS	TRS	SBRS	COLA	Total
Minimum contribution requirement:					
Normal cost	$380.0	$251.4	$21.6	$ 50.5	$ 703.5
Amortization of unfunded actuarial liability	217.6	316.3	27.5	160.6	722.0
Interest on unfunded actuarial liability	61.5	64.2	5.6	27.2	158.5
Total contributions required	$659.1	$631.9	$54.7	$238.3	$1,584.0
Contributions made:					
By employees	$194.7	$142.9	$ 9.9	$ 0	$ 347.5
% of covered payroll	7.0%	6.4%	6.1%	NA	NA
By the Commonwealth	289.5	251.4	23.0	82.6	646.5
% of covered payroll	10.3%	11.3%	14.1%	NA	NA
Total contributions made	$484.2	$394.3	$32.9	$ 82.6	$ 994.0

The above contributions required are based on the entry age normal cost method using the same actuarial assumptions used to compute the Pension Benefit Obligation.

In addition, during the year ended June 30, 1990, the Commonwealth has made payments totaling $25,443,000 to current retirees employed prior to the establishment of the current plans.

During the year ended June 30, 1990, the Commonwealth changed its method of accounting for pension expenditures in the General and Special Revenue Funds, and recorded as a liability in the General Long Term Obligations Account Group the amount of prior years' unfunded minimum pension costs, determined in accordance with GAAP in the amount of $555,846,000.

11. Retirement Systems (Continued):

Trend Information

The following table presents the required three-year trend information:

	Year	% SERS	% TRS	% SBRS
Net assets available for benefits as a percentage of the pension benefit obligation applicable to employees:	1990*	54.2	46.1	41.0
Unfunded pension benefit obligation as a percentage of annual covered payroll:	1990*	112.8	199.7	242.9
Commonwealth's contributions to the pension plan as a percentage of annual covered payroll:	1990	10.3	11.3	14.1

Ten-year historical trend information for SERS and TRS may be found on pages 122 and 123 of the Commonwealth's Comprehensive Annual Financial Report.

*Fiscal year 1990 is the first period for which pension benefit obligations have been calculated in accordance with GASB Statement No. 5.

Enterprise Funds Condensed Pension Information -

The following component units included as Enterprise Funds, maintain their own pensions plans. More detailed information concerning these plans is available in the separate financial statements of the component units. The pension benefit obligation and net assets available for benefits for each plan are as follows (amounts in thousands):

	Pension benefit obligation	Net assets available for benefits
MBTA	$797,699	$825,050
MCCA	3,271	1,919
MWRA	3,217	3,451

All three Enterprise Funds met their actuarially determined employer contribution requirements.

11. Retirement Systems (Continued):

Postretirement Health Care and Life Insurance Benefits -

In addition to providing pension benefits, the Commonwealth provides certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other non-state agencies. Eligible retirees are required to contribute a specified percentage of the health care benefit costs. In addition to the required retiree contributions, the Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. The Commonwealth recognizes its share of the costs of providing these benefits as paid. These costs totaled $84,200,000 for the fiscal year ended June 30, 1990.

12. Deferred Compensation Plan:

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Commonwealth and its political subdivisions, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Commonwealth (without being restricted to the provision of benefits under the plan), subject only to the claims of the Commonwealth's general creditors and its political subdivisions participating in the plan. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. All plan assets are stated at market value.

It is the opinion of the Commonwealth that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the Commonwealth's general creditors; however, plan assets have not been used in the past to satisfy such claims.

Of the $531,180,000 in the plan at June 30, 1990, $399,400,000 was applicable to the Commonwealth; the remaining $131,780,000 represents the assets of cities and towns participating in the plan. The assets and liabilities of the deferred compensation plan are included in Agency Funds at June 30, 1990.

13. Obligations under Lease/Purchase and Other Financing Arrangements:

The Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase agreements, for equipment, which are accounted for as capital leases. The lease agreements are for various, terms and all contain non-appropriation clauses indicating that continuation of the lease is subject to funding by the Legislature.

For the year ended June 30, 1990, gross capital lease expenditures of approximately $22,900,000 are included in the Commonwealth's total expenditures. The outstanding liability of the present value of the net minimum lease payments of $38,836,000 is reported in the General Long Term Obligations Account Group.

At June 30, 1990, the gross minimum lease payments, together with the present value of the net minimum lease payments are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1991	$13,899	$2,393	$16,292
1992	10,785	1,506	12,291
1993	6,327	823	7,150
1994	3,384	471	3,855
1995	1,224	324	1,548
1996 and thereafter	3,217	666	3,883
Total	$38,836	$6,183	$45,019

At June 30, 1990, the fixed assets acquired under capital leases, which are included in the General Fixed Assets Account Group, are as follows (amounts in thousands):

	Amount
Data processing equipment	$42,515
Telecommunications	13,636
Motor vehicles	12,213
Other equipment	615
Total	$68,979

13. Obligations under Lease/Purchase and Other Financing Arrangements (Continued):

The Commonwealth purchased a telecommunication system through the issuance of certificates of participation in fiscal year 1989. These certificates were issued through a trustee, and the Commonwealth is responsible for payments to the trustee that approximate the interest and principal payments made by the trustee to the certificate holders. The Commonwealth maintains custody and use of the equipment. The trustee holds the title as security for the certificate holders, until such time as the certificates are fully paid. Proceeds from the issuance of these certificates and the related capital expenditures are accounted for in essentially the same manner as lease/purchase agreements.

Since the issuance of $18,610,000 of certificates of participation in September, 1988, no principal payments have been required. The liability is recorded in the General Long Term Obligations Account Group.

Debt service requirements for certificates of participation including interest at rates of 6.5% to 7.8% are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1991	$ 1,340	$1,334	$ 2,674
1992	1,425	1,243	2,668
1993	1,525	1,144	2,669
1994	1,635	1,036	2,671
1995	1,750	918	2,668
1996 and thereafter	10,935	2,418	13,353
Total	$18,610	$8,093	$26,703

13. Obligations under Lease/Purchase and Other Financing Arrangements (Continued):

The Commonwealth has entered into numerous operating lease agreements to lease real property and equipment. Rental expense under these operating leases for the year ended June 30, 1990 was approximately $83,046,000. At June 30, 1990, the Commonwealth has the following minimum rental payments due under these leases (amounts in thousands):

Year ending June 30	Amount
1991	$ 91,497
1992	44,762
1993	30,314
1994	13,978
1995	4,199
1996 and thereafter	166
Total	$184,916

Lease agreements are for various terms and most contain clauses indicating that continuation of the lease is subject to funding by the Legislature.

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock. The leases expire through 2013. Upon termination of the leases, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined. These leases have been accounted for as operating leases. The future minimum lease payments are as follows (amounts in thousands):

Year ending June 30	Amount
1991	$ 12,068
1992	12,068
1993	12,068
1994	12,068
1995	12,068
1996 and thereafter	228,032
Total	$288,372

13. Obligations under Lease/Purchase and Other Financing Arrangements (Continued):

The MWRA leases office space in Boston and other property under long term leases. Future minimum rental payments required under operating leases having initial or remaining cancelable lease terms in excess of one year are as follows (amounts in thousands):

Year ending June 30	Amount
1991	$ 10,916
1992	9,915
1993	9,778
1994	10,053
1995	10,068
1996 and thereafter	128,717
Total	$179,447

14. Commitments:

The Commonwealth is obligated to pay the MBTA and the regional transit authorities for their net cost of service (current expenses, including interest on debt, minus current income) and to advance funds sufficient to meet outstanding bonds and notes if funds are not otherwise available. The Commonwealth recovers a portion of these payments through assessments to cities and towns served by these authorities.

At June 30, 1990, the MWRA had commitments of approximately $357,600,000 relating to a capital improvement program. Additionally, the MWRA has been party to several state and federal lawsuits and is required to comply with a detailed schedule of actions to achieve and maintain compliance with the requirements of the Clean Water Act. The MWRA anticipated capital expenditures of approximately $6,000,000,000 between 1990 and 1999, based on certain preliminary assumptions and estimates. These estimates may change significantly as design and construction of the necessary facilities proceed. Funding is expected from various federal and state grants and debt issuance proceeds.

At June 30, 1990, the Government Land Bank, a component of the Economic Development Fund, had committed to issuing mortgages of $21,600,000.

15. Contingencies:

There are a number of lawsuits pending or threatened against the Commonwealth which arose from the ordinary course of operations, including claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General estimates the liability to be $246,600,000 of which $168,500,000 is expected to be paid in more than twelve months.

Additionally, there are various cases currently before the Appellate Tax Board, with approximately $275,000,000 of collected taxes being contested. No accrual has been made for these amounts in the financial statements.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund which received the grant. As of June 30, 1990, the Commonwealth estimates that nonmaterial liabilities, if any, will result from such audits.

The Commonwealth's Abandoned Property Law requires deposit of certain unclaimed assets into an Agency Fund. The statute requires the excess amount over $500,000 each June 30 to be remitted to the General Fund where it is included in miscellaneous revenue. Amounts remitted during fiscal year 1990 totaled $35,400,000. Approximately $209,300,000 has been remitted since the inception which represents a contingency, because claims for refunds can be made by the owners of the property. No material amounts have been repaid.

In addition to the debt disclosed in Note 8, the Commonwealth guarantees the debt of certain authorities and local governments. The guaranteed debt outstanding at June 30, 1990, issued by local housing authorities and the Town of Mashpee, was approximately $8,900,000 and $1,200,000, respectively.

The Commonwealth also guarantees certain debt under statutory requirements. The debt so guaranteed at June 30, 1990, issued by regional transit authorities and the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority was approximately $55,000,000 and $22,600,000, respectively.

16. Adjustments and Reclassifications:

For the year ended June 30, 1990, certain changes have been made to opening fund balances. In addition, certain reclassifications have been made to the 1989 balances to conform to the presentation used in 1990. The following schedule details the restatements made to fund balances at June 30, 1989 (amounts in thousands):

	General	Capital Projects	Expendable Trusts	Nonexpendable Trust
Fund balances (deficit) at June 30, 1989, as previously reported	($820,696)	($420,164)	$1,351,646	$29,027
To reclassify funds	112,537		(113,119)	(4,938)
Reclassification of minibonds determined to be a fund liability		(161,011)		
Fund balances (deficit) at June 30, 1989, as restated	($708,159)	($581,175)	$1,238,527	$24,089

Certain changes have also been made to the opening balance sheet of the General Long Term Obligations Account Group, as follows (amounts in thousands):

As previously reported	$6,795,121
Prior year unfunded pension costs	555,846
Increase in obligations under lease/purchase and other financing arrangements	59,045
Reclassification to Capital Projects Funds of minibonds determined to be a fund liability	(161,011)
As restated	$7,249,001

COMBINING AND INDIVIDUAL FUND AND ACCOUNT GROUP FINANCIAL STATEMENTS,
SCHEDULES AND REQUIRED SUPPLEMENTARY INFORMATION

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COMPARATIVE FINANCIAL STATEMENTS -

GENERAL FUND

GENERAL FUND

The General Fund is the Commonwealth's primary governmental fund. All governmental activities not specifically directed to another fund are accounted for in the General Fund. As a result, most budgeted operating expenditures of the Executive secretariats, the Legislature, constitutional offices, institutions of higher education and independent commissions and a portion of expenditures for the judicial system are paid from the General Fund. It similarly receives a significant portion of sales, individual income and corporate taxes, and the full amount of most other governmental taxes.

Revenues and expenditures associated with federal reimbursement-based programs are accounted for in the General Fund. These programs have various reimbursement formulas, which means the Commonwealth is not fully reimbursed for every dollar it spends. For example, the Medical Assistance Program (Medicaid) and Aid for Families with Dependent Children (AFDC) operate on the basis of a 50% reimbursement for costs incurred.

The Commonwealth provides grants and contract assistance to several of the authorities it reports as component units. Most of these activities are recorded in General Fund accounts.

During fiscal year 1990, the Commonwealth Liability Reduction and Medical Liability Assistance accounts were established within the General Fund. These accounts record revenues, expenditures and financing activities undertaken to fund the Commonwealth's statutorily-defined deficit at June 30, 1989.

COMMONWEALTH OF MASSACHUSETTS

GENERAL FUND

COMPARATIVE BALANCE SHEETS

JUNE 30, 1990

(Amounts in thousands)

	1990	1989
ASSETS		
Cash and short term investments	$1,192,225	$ 643,686
Receivables, net of allowance for uncollectibles:		
Taxes	733,254	469,479
Due from federal government	428,405	601,895
Other receivables	84,333	90,010
Due from cities and towns	179,486	175,000
Due from other funds	358,903	352,391
Total assets	$2,976,606	$2,332,461
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$1,182,510	$1,473,367
Accrued payroll	26,888	36,277
Tax refunds and abatements payable	270,983	205,714
Other accrued liabilities	244,323	321,857
Due to other funds	1,768,846	894,791
Deferred revenue	67,102	503
Agency liabilities		1,111
Notes payable	405,400	107,000
Total liabilities	3,966,052	3,040,620
Fund balances (deficit):		
Reserved for debt service	461,303	
Unreserved	(1,450,749)	(708,159)
Total fund deficit	(989,446)	(708,159)
Total liabilities and fund balances	$2,976,606	$2,332,461

COMMONWEALTH OF MASSACHUSETTS

GENERAL FUND

COMPARATIVE STATEMENTS OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 1990

(Amounts in thousands)

	1990	1989
Revenues:		
Taxes	$ 5,951,893	$5,373,471
Assessments	160,903	170,095
Federal grants and reimbursements	1,885,350	1,717,716
Departmental	841,346	797,293
Miscellaneous	189,152	128,856
Total revenues	9,028,644	8,187,431
Other financing sources:		
Proceeds of general obligation bonds	415,000	
Proceeds of refunding bonds		226,450
Proceeds of obligations under lease/purchase and other financing arrangements	6,731	34,575
Operating transfers	294,205	286,401
Total other financing sources	715,936	547,426
Total revenues and other sources	9,744,580	8,734,857
Expenditures:		
Current:		
Legislature	44,185	49,377
Inspector General	1,083	1,379
Judiciary	79,758	56,134
Executive	4,817	6,170
Secretary of the Commonwealth	9,826	13,339
Treasurer and Receiver - General	83,196	47,081
Auditor of the Commonwealth	11,386	12,586
Attorney General	28,572	41,688
Ethics commission	898	1,081
District Attorney	13,113	44,391
Administration and finance	745,355	359,913
State Comptroller	5,665	5,107
Environmental affairs	69,941	76,129
Communities and development	212,887	187,376
Human services (including Medicaid of $2,417,597 and $2,274,531, respectively)	5,698,616	5,552,599
Transportation and construction	11,815	11,216
Education	29,476	53,665

(Continued)

COMMONWEALTH OF MASSACHUSETTS

GENERAL FUND

COMPARATIVE STATEMENTS OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 1990

(Amounts in thousands)

	1990	1989
Expenditures (continued):		
Current (continued):		
Higher education	1,001,873	988,184
Public safety	45,006	49,425
Economic affairs	27,908	53,835
Elder affairs	125,415	148,547
Consumer affairs	25,738	28,704
Labor	21,509	23,410
Independent commissions	5,362	8,209
Direct local aid to cities and towns	91,605	98,184
Pension	237,102	237,337
Debt service:		
Principal retirement	253,212	219,321
Interest and fiscal charges	310,683	259,559
Total expenditures	9,196,002	8,633,946
Other financing uses:		
Payment to refunded bond escrow agent		226,450
Operating transfers	829,865	561,304
Total other financing uses	829,865	787,754
Total expenditures and other uses	10,025,867	9,421,700
Deficiency of revenues and other sources over expenditures and other uses	(281,287)	(686,843)
Fund deficit at beginning of year	(708,159)	(21,316)
Fund deficit at end of year	($ 989,446)	($ 708,159)

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COMBINING FINANCIAL STATEMENTS -

SPECIAL REVENUE FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to finance specific functions or activities carried out by the Commonwealth.

Federal Grants - to account for federal grant monies that are designated for specific programs, excluding federal highway construction grants, which are accounted for in the Federal Capital Projects Fund, and federal reimbursement programs such as Medicaid, which are accounted for in the General Fund.

Highway - to account for highway user taxes and fees which finance highway maintenance and safety services, and which provide matching funds, as required, for federally sponsored highway projects.

Local Aid - to account for lottery operating surpluses and for portions of sales, income, corporate and other taxes which have been earmarked for distribution to cities and towns or are used to finance programs that benefit local communities, and a major portion of the court systems.

Lotteries - to account for the operations of the State and Arts Lotteries, which have been established primarily to finance the Local Aid Fund.

Universal Health Care - to account for assessments and other revenues that are dedicated to making health care and health insurance accessible and affordable to all citizens of the Commonwealth.

Oil Overcharge - to account for the fines and penalties collected under federal regulation from certain oil companies doing business in the Commonwealth, and interest thereon, being accumulated to provide fuel assistance and weatherization for low income residents.

Other - to account for a variety of miscellaneous taxes, assessments, fees, fines, and other revenues which are restricted to the financing of specific Commonwealth programs.